HALMA

Annual Report
& Accounts 2004

HALMA

ANNUAL REPORT AND ACCOUNTS 2004

Halma p.l.c.

Annual Report and Accounts 2004

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Financial Highlights

	Change	2004 £m	2003 £m
Turnover	**+9%**	292.6	267.3
Overseas sales	**+10%**	206.1	188.2
Profit before taxation[1]	**+8%**	50.3	46.5
Earnings per share[2]	**+10%**	9.44p	8.55p
Earnings per share – statutory		6.09p	7.76p
Dividend per share	**+7%**	6.19p	5.812p
Return on sales[3]		17.2%	17.4%
Turnover to net tangible assets		3.05 times	3.08 times
Return on capital employed[4]		52.4%	53.5%

[1] Before goodwill amortisation of £4,220,000 (2003: £3,235,000) and exceptional items on disposal of non-core businesses of £9,149,000 (2003: £nil).
[2] Before goodwill amortisation of 1.07p (2003: 0.79p) and exceptional items of 2.28p (2003: nil) per share.
[3] Return on sales is defined as profit before taxation[1] expressed as a percentage of turnover.
[4] Return on capital employed is defined as profit before taxation[1] expressed as a percentage of net tangible assets (being equity shareholders' funds less intangible assets).

Highlights

- Organic and acquisition growth contribute to record pre-tax profit[1]
- Widespread improvement in sales performance across the Group's businesses and regions produced 9% turnover growth
- Return on capital employed[4] above 50% delivered cash generation of £22m during the year
- Quality of Halma's operations strengthened by the sale of three non-core businesses in the year followed by two acquisitions since the year end
- Progressive dividend policy maintained with 7% growth

Halma at a glance

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 and Door Safety

Bursting discs and sequential locking for Process Safety

High power electrical Resistors

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

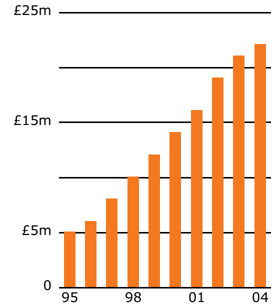
Investing in marketing, new product development and innovation to maintain high organic growth

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

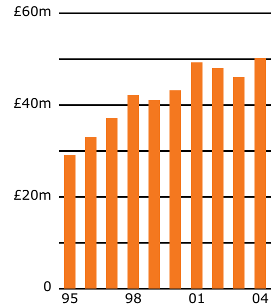
Dividend growth



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

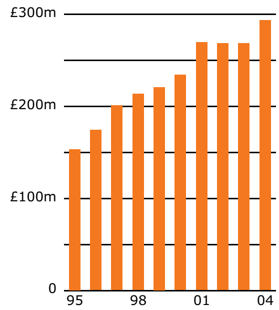
Profit growth

(before goodwill amortisation and exceptional items)*



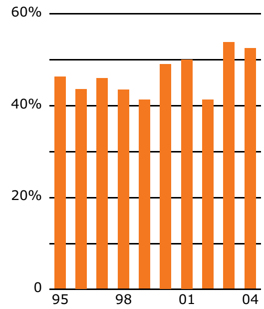
Long-term profit growth accompanied by excellent cash generation.

Sales



Growing sales in tough world markets.

ROCE*



ROCE consistently above 40% delivering real shareholder value.

*see Financial Highlights

Chairman's Statement

"...no shortage of ideas, determination or actions..."

Geoff Unwin, Chairman

In my first year as Chairman of Halma, I am delighted to announce record profit before tax* of £50.3 million.

Observations from a new Chairman

However, before turning to more of the headline numbers, I thought it might be useful, as a new boy to the Group, to share some of my initial observations, and to glimpse behind the scenes at some of the issues we have been tackling.

Firstly let me say that I was attracted to Halma by its extraordinary track record (one of the top performing stocks on the London Stock Exchange over 20 years), its management style and the robustness of demand for its products even under difficult market conditions. I was intrigued. My induction into the Group, guided by David Barber, was exemplary. He left me alone to go where I wanted, ask whatever I wished, yet was always available to discuss, debate and question what I had observed.

Over the first few months I visited operations accounting for about half our profits. I saw companies both large and small; some fighting in tough markets, many successful – the picture became clearer. The strengths were evident:

- demand related to health and safety provided a driver or (at least) support to demand.
- high market shares gave some protection to pricing.
- autonomously run companies gave clarity of responsibility and ownership of performance.
- high returns on sales and capital.
- financial control was tight.
- a track record of which to be proud.
- many truly excellent and dedicated people.

*see Financial Highlights

However, over the last few years, performance as measured by our high historic standards had not moved ahead as we would have wished. This was undoubtedly due, to a certain extent, to the tough economic conditions we have seen recently, but had other factors crept in that were holding us back?

Our Response

This was the question that was posed to the Board and senior management. Extremely thoughtful answers came in followed by very lively debates – no factor remained unexamined, no cow, sacred or otherwise, undisturbed. The outcome? Work was accelerated on a number of potential bottlenecks:

- **management:** much strengthening (from both within and outside) and training programmes increased.
- **incentives:** new bonus schemes to explicitly align performance to shareholder value.
- **knowledge transfer:** "wiring up" the Group to facilitate transfer of knowledge without destroying the foundations of autonomy.
- **reduced span of control:** remarkably, senior management felt they could be more effective if they had fewer companies to manage and could therefore implement necessary change faster. Done.
- **sales:** renewed emphasis on all aspects of selling and sharing of the best ideas for tackling new markets across the Group.
- **innovation:** more funds allocated to innovation and new techniques introduced to get improved or new products to market, faster.
- **resource allocation:** the beginnings (more to come) of a more rigorous allocation of resources (capital and management) to higher growth areas. This year we have made three non-core disposals.

Have the actions on these issues had some effect on performance? Impossible to quantify but no one is in any doubt we are the better for focusing on these priorities. However, what is undeniable is that the results from these actions are due to the hard work and single-mindedness of the management team together with the dedication from all our employees towards our customers.

The Results

Profit before tax* was a record £50.3 million and earnings per share*, also a record, increased by 10% to 9.44p. Return on capital* was 52.4% and net cash at the year end was £22 million.

Turnover grew by 9% to a record £292.6 million. During the year we disposed of three businesses deemed to be non-core, and shortly after the year end acquired Diba Industries, Inc., strengthening our position in the life sciences market, and Ocean Optics, Inc., extending our optical technology.

The Board recommend a final dividend of 3.75 pence per share, giving an increase of 7% for the year.

*see Financial Highlights

Prospects

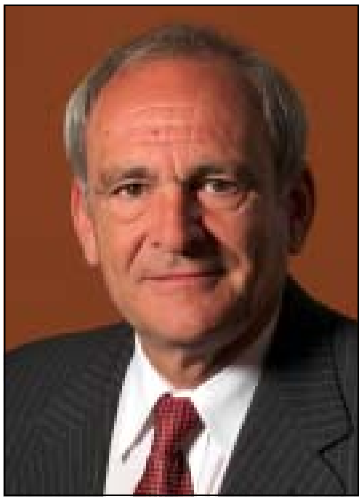
There is no shortage of ideas, determination or actions and these should show through next year, as they have this year, in our results. We continue to focus on those areas that are clearly under our control or influence, notwithstanding that there is still little evidence of any significant uplift in our markets.

Geoff Unwin

Chief Executive’s Review

“strong and active management delivers record profits”

Stephen O’Shea, Chief Executive



Strong and active management delivers record profits

The Group performance has been strong despite market conditions remaining difficult. We achieved record profits* of £50.3 million on a lower level of operating assets, despite a net £1 million profit hit from currency movements. Widespread improvement in sales performance across the Group’s businesses and regions produced 9% sales growth. These results reflect our active management approach through which we achieve growth through focused acquisitions, efficiency improvements and the organic development of our existing businesses. I am pleased that excellent efforts from our management teams produced a return on capital employed* of 52%, outstanding for any engineering and manufacturing company.

In the year we sold three non-core businesses from our Optics and Specialist sector that were not compatible with our targets for growth and financial returns. Since the year end we have made two important acquisitions for a total initial sum of £22 million, significantly strengthening this sector. Looking forward we expect to gain useful benefits from our acquisition and disposal activities. Two further businesses were also consolidated to achieve the benefits of greater integration. We remain strongly cash generative, creating net cash of £22 million during the year. We funded our acquisitions from profits and also paid a record sum in dividends to our shareholders.

Well positioned for growth

Our growth has come primarily from new products, the new customers they attract and new applications for long-term repeat ordering customers. We spent a record amount on research and development which now accounts for 4% of sales and launched many new products. Our cost base has been well managed so that we maintained our 17% return on sales* for yet another year. The Group is in a strong position to benefit from improvements in our end markets although we saw no upturn in the 2003/04 financial year and are not reliant on a market recovery for our future growth.

*see Financial Highlights

Management team strengthened

There has been a seamless transition with our Chairman, Geoff Unwin, stepping up from his previous role as Deputy Chairman in July 2003 and with the appointment of a new non-executive Director, Stephen Pettit, in September 2003. The management team has been further strengthened with the recruitment of two additional senior managers, Nigel Trodd and Andy Richardson, whom we welcome into the Group. We said goodbye to David Barber, the founder and architect of the Halma culture who served the Group over an outstanding tenure of 31 years. We owe much to him and all of us wish him well in his retirement.

Widespread sales and profit growth

I am encouraged by the number of countries where we have built up stronger positions. Territorial sales were grown to the UK, Europe, USA, Middle and Far East and Other Countries. The US Dollar weakened considerably during the year so that although sales in the USA grew by 12% in local currency, this translated to a 2% increase in Sterling terms. We make over a quarter of our profits from our US based companies. They increased US Dollar profits although in Sterling terms this converts to a small decline of 5%, £0.7 million. We were helped in the early part of the year by the strength of the Euro.

Sales from our European companies grew by 42% to £43.7 million. We owned BEA, the world market leading supplier of automatic door sensors, for the whole of the year (compared to a 6 month contribution last year). This very successful acquisition continues to deliver impressive results by producing excellent products and growing its customer base across the world. We have rolled out one of BEA's innovation techniques across the whole of the Group, demonstrating our commitment to transferring best practice.

Just over half our sales and profits are made by the UK companies. Continuing operations earned profits of £26.6 million, reflecting organic growth of £1.9 million, and increased sales by £10.6 million. Profits from our companies outside of the UK and USA, helped by £2.7 million from BEA, rose by £3.2 million.

New Elevator safety products

Our Elevator and Door Safety sector performed particularly well demonstrating both organic and acquisition growth. Its profits are now £12.1 million, 24% of the Group's total. The Far East and Asia are increasingly important territories and we extended our premises in Beijing and our manufacturing facilities in Shanghai and Beijing, as well as growing in Singapore. Important product innovations include new emergency communication equipment, demand for which is likely to grow following new European legislation in this area.

Repositioning in Optics and Specialist sector

We are increasing the focus on higher technology products and more technically advanced customers. Evidence of this can be seen in both the disposals made this year and in the acquisitions of Diba and Ocean Optics since the year end, both of which significantly broaden our capabilities in our Optics and Specialist sector. Diba products extend our product range offered to instrument makers in the growing field of life sciences. Ocean Optics make spectrometers that help analyse substances via their reaction to light. They are closely related to our water purity measuring photometers and other optical diagnostic equipment. Our trading in this sector produced increased profits. However within the sector we report our Head Office companies and the improved trading was more than offset by the costs of increasing senior management and lower income from subsidiaries who reduced their capital employed whilst growing profits. The net effect was a reduction in profits of £0.4 million to £7.1 million.

Organic growth in Fire and Gas sector

The Fire and Gas sector increased both sales and profits with new fire detectors and personal gas warning monitors. They earned £1.6 million of organic profit growth. This sector increased its already effective use of assets, producing a return on capital employed of 85%, exceeding even the Group's strong ratios.

Resistors sector as predicted

As expected, our Resistors sector continued to suffer a depressed market, particularly in US heavy industry. There are some indications of improvement in one of our customer areas, mass transit systems. The sector has been managed vigorously in terms of both cost and working capital reductions though we have yet to reverse the decline in profits.

Investment in new products

Our Process Safety sector did not quite match last year's sales and profits. The UK market proved difficult although there are now improving conditions in the petrochemical sector, which look likely to continue. New applications and specially developed products are particularly important in this sector. New products introduced late in the year that improve safety at delivery bays and provide enhanced emergency pressure relief, are examples of increasing innovation in this otherwise stable sector.

Product leadership helps Water sector to increased profits

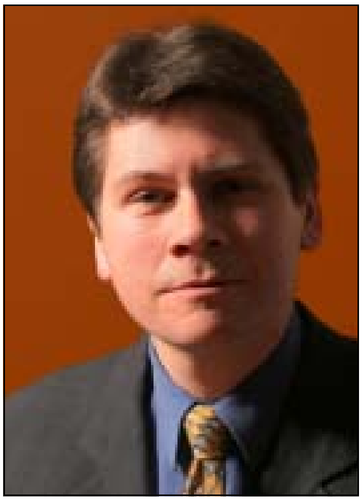
Our Water sector increased both sales and profits this year. We believe we are now offering customers the best UV sterilisation systems for drinking water on the market. Sales of water leak detection and control equipment are growing in the USA and there are prospects of capital spending by UK water utilities beginning to rise. We see this as a long-term growth sector.

Sustained growth based on sustained innovation

Our focus on innovation and investment in research and development is bringing forward increasing numbers of new products and accelerating the acquisition of new customers. The free cash generated by our businesses and through disposals has been invested in maintaining this momentum and building our range of products through judicious acquisitions. We will benefit significantly once our markets improve but we are not dependant on this. We have the talent and the resources we need to build on our progress through our own efforts. The evidence for this is the record sales and profits earned this year and the confidence we have in continuing our rapid rate of dividend increase. I look forward to the coming year.

Stephen R O'Shea

Financial Review



"...a resilient group in excellent shape..."

Kevin Thompson, Finance Director

Record profit with organic growth despite adverse currency movements

I am pleased to report that turnover for the year was 9% higher than last year at £293 million (2002/03: £267 million). Turnover on continuing operations was increased by 10%. Profit before tax* set a new record at £50.3 million (2002/03: £46.5 million). Return on sales* exceeded 17%, as it has now done every year for more than a decade.

Currency translation, with about one-third of our profits linked to the currently weak US Dollar, offset slightly by profits earned in stronger Euros, reduced 2003/04 reported sales and profits by around 2%. Looking ahead, if the US Dollar and Euro were to stay at their level so far in this new financial year and with the current mix of results we might expect a further 3% adverse translation impact on our 2004/05 profits.

The extra £1.7 million of UK National Insurance, pension and general insurance costs which I anticipated in my review last year have arisen and have been funded within this year's profits. These extra costs are ongoing. However, their effects are mitigated by our success in producing consistently high net and gross margins through continuous improvements in procurement and processes.

6% of the turnover increase over last year came from acquisitions. Stripping out the currency effect and the incremental impact of acquisitions and disposals, I am very pleased to report that these figures show 6% organic growth in turnover, and profits show the same trend.

Consistently high returns generate strong cash flow

Each year I comment on our key metric, return on capital employed (profit before tax* expressed as a percentage of net tangible assets). This key indicator guides our operations, combining both return on sales and asset turns. We have generated £22 million of cash in the year and despite its inclusion in the Group's return on capital employed calculation we still produced a figure of 52% – remarkable by any measure.

*see Financial Highlights

On my regular visits to our businesses I see the benefits we obtain from a deep understanding of the importance of producing high returns from the minimum possible level of assets. This efficient use of assets benefits our customers and shows through in our return on capital* which has exceeded 40% for well over 20 years. We grew this year and used less operating assets to do it. The result of these outstanding returns is a strong flow of cash available to us for further investment in our businesses, to pay dividends and to make acquisitions.

Investing for the future

New products and innovation in our processes underpin our future growth. This year we invested a record amount of £11.2 million, about 4% of turnover, in research and development. We have maintained the investment in the capital assets used across our businesses with capital expenditure once again at a typical level of around 125% of depreciation. We have used the tougher market conditions which we have experienced in the recent years to strengthen our businesses with this type of investment, to gain market share and put ourselves in the best shape for the future.

A progressive dividend policy with dividend cover edging up

The Board recommends a final dividend of 3.75p per share, giving a full year dividend of 6.19p per share, 7% up on last year's record level. This dividend represents a continuation of Halma's progressive dividend policy and also makes a small contribution toward increasing the dividend cover which is our intention over the medium term.

If approved, this final dividend will be paid on 23 August 2004 to shareholders on the register at the close of business on 23 July 2004. Together with the interim dividend this will give a total of £23 million paid to shareholders in relation to the 2003/04 year financed by our strong cash flow, with a total of £88 million distributed as dividends in the past five years.

Prudent approach to treasury, tax and pensions

With three-quarters of the Group's sales made overseas and half the profits made by companies based outside the UK, the Group's results are sensitive to movements in exchange rates, particularly the US Dollar and Euro. Currency movements in the year affect our results through the translation into Sterling of profits earned in local currencies as well as affecting the underlying transactions. We have an element of natural hedging, in particular through the purchase of components in US Dollars. Our operating companies hedge their trading transactions back into their local reporting currency. We do hedge the majority of our US Dollar and Euro net assets using currency loans. The objective of our treasury activities is risk management and control, no speculative transactions are undertaken.

The effective tax rate on profits* was 31.3% compared with 32.9% in 2002/03. We benefited from higher profits earned in lower tax jurisdictions, including China.

We have continued to adopt the transitional provisions of FRS 17 (Retirement Benefits) pending the introduction of International Accounting Standards. The value of the pension plans' assets have increased since the last balance sheet date as can be seen from the FRS 17 disclosures, however revised inflation assumptions have increased the calculated liabilities. The net deficit on an FRS 17 basis has reduced by 7% to £29 million after the related deferred tax.

*see Financial Highlights

As noted last year, we have closed our defined benefit schemes to new members and established a defined contribution scheme. Contributions into the defined benefit schemes are in line with the actuaries' recommendations, following the triennial actuarial valuations last year and are fully reflected in the Consolidated Profit and Loss Account, with no further increases necessary at this time.

I note that the funding of pension obligations is a long-term issue, even though scheme assets are subject to short-term fluctuations. Our long-term funding basis is solid and the currently reported deficit, by any set of rules, is small relative to the Group's market capitalisation.

Compliance and control continue at a high level

I remain committed to maintaining strong internal control across the Group. For many years we have successfully used our senior finance staff to carry out reviews of our operating companies at half year and year end, making rotational visits at other times to assess internal controls. During the year we have enhanced these procedures and in particular those relating to internal control visits by the introduction of independent reporting lines. In 2004/05 we intend to confirm that our procedures amount to a formal internal audit function.

Through close monitoring of our businesses, the use of simple relevant systems and involvement of high quality finance executives based at each operating company, we continue to have a strong control environment whilst providing value to our entrepreneurial operations.

Active management of our operations

We have taken a number of actions to improve our businesses and make good use of our cash. Shortly before the end of the year we sold three non-core businesses for £5 million. They accounted for turnover of £13 million and in aggregate were operating around breakeven. If these discontinued operations are excluded the Group's return on sales is 18%. After deducting the costs of sale and pension and property obligations retained within the Group, the net result was an exceptional charge of £9.1 million including goodwill of £5.8 million. The goodwill adjustment is a non-cash item and includes £5.6 million previously written off to reserves and now recycled. The net effect of the disposals will be a net cash inflow to the Group having met all necessary costs.

Combining the proceeds from the above transactions with our existing self-generated cash, we spent £22 million just after the year end on two high-quality acquisitions, Diba Industries, Inc., and Ocean Optics, Inc. This active management produces an even stronger base for future growth.

International Accounting Standards on the horizon

International Accounting Standards will be in full effect for the first time in our 2005/06 accounts, although preparations are in progress now to collect data for use in the comparative figures. Other than the additional disclosures which will be required, we anticipate that these new Standards will have most impact in the following areas: accounting for share options, pensions and accounting for research and development.

Continuously creating value

Our returns and cash flow performance this year have been up to the high standards we have established over many years. The business has been strengthened by investment in new product innovation, prudent acquisitions, the disposal of non-core assets and by further process improvement. The objective remains unchanged, to maintain a resilient group in excellent shape to create even more value for our shareholders.

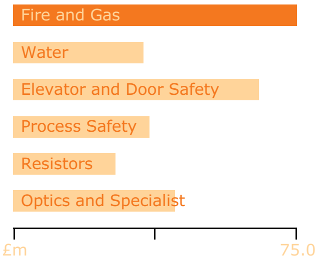
Kevin J Thompson

Operating Review – Fire and Gas

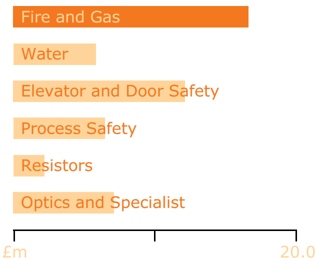
Fire and Gas turnover

Fire and Gas profit*

Segmental turnover, 2004



Segmental profit, 2004*



*before interest, tax and goodwill amortisation – see note 1 on the Accounts

Sector Overview

Our Fire and Gas sector companies lead the world in sensor technologies that detect hazards before they become life-threatening and give people warning to get out of harm's way. Our commercial quality fire detection products, sold to 70 countries, protect both people and buildings from the risk of fire. Workers in many industries rely on our gas detectors to safeguard their lives and protect them from exposure to toxic or explosive gases. We also make specialist products for conditioning gas samples before they are analysed.

The principal sales channels for fire detectors are distributors and fire alarm installers, whereas customers for gas detectors range from lone contractors to multinational oil companies. During 2003/04 our Fire and Gas sector companies produced 27% of continuing Group turnover and 33% of operating profit*.

We achieved significant advances in both sales and profits throughout this sector. All of our fire products companies raised profits during 2003/04, coupled with increased market shares. Most growth in fire detector sales came from the UK, Europe, the Middle East and the US. We also grew gas detector sales and profits significantly, aided by the recruitment of a direct sales force in the US.

Increased co-operation between our fire product companies on research and development, marketing and shared sales channels enhanced our competitive advantage. Development of new smoke detectors and electronic fire sounders benefited from inter-company collaboration. New microprocessor-based smoke detectors were successfully launched, opening new markets in Eastern Europe and the Middle East. In total, twenty new fire products were launched during 2003/04.

Despite fierce price competition in the global fire products market, and dropping prices, our companies achieved improved gross margins. This was due to continued manufacturing investment, improved supplier relationships and skilful marketing.

The regulatory burden on fire safety product manufacturers continues to increase. New standards were imposed in all major markets during 2003/04. Through regular presentations, the Group educates customers, regulatory bodies and government departments on the impact of new regulations.

Restructuring of European gas detector sales through directly controlled branch operations in Holland, Germany, Poland and France led to significant European sales growth. Prices of portable gas detectors declined as manufacturers cut production costs through improved manufacturing and offshore sourcing. However, lower pricing is creating greater demand and increasing the use of personal protection products, particularly in developing countries.

Certification of our gas detectors by the principal marine approvals organisation has created new sales opportunities in the high growth marine market. We expect to reach many new customers via a new distribution agreement with a leading multinational marine support business. A new multi-gas portable detector was successfully launched with ease of maintenance, leading to low cost of ownership, proving critical.

For several years we have been working closely with US developers of fuel cells. These are electro-chemical devices that function like batteries or electric generators but run on hydrogen gas as fuel. Until now, this has mainly been a prototyping market. However, in 2003/04 we began to sell gas conditioning components used in fully commercial fuel cell systems for small-scale power generation.

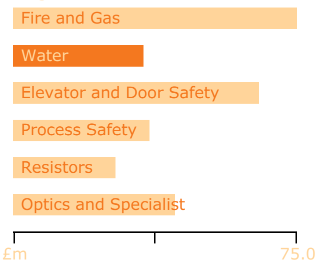
Our latest gas detectors protect workers from four different gas hazards simultaneously.

Operating Review – Water

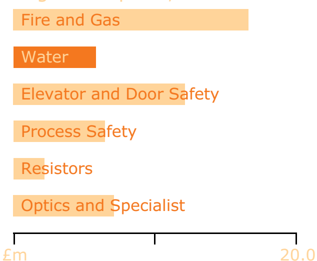
Water turnover

Water profit*

Segmental turnover, 2004



Segmental profit, 2004*



*before interest, tax and goodwill amortisation – see note 1 on the Accounts

Sector Overview

We have world class companies operating in three areas of water technology: ultraviolet (UV) light water treatment, instruments for conserving water in distribution networks and water analysis products. All of these markets are global and exports account for a high proportion of sales in this sector. Our principal customers in this sector are drinking water supply companies and municipal authorities together with food and process industry manufacturers. Based in the UK, the Netherlands, France and the US, during 2003/04 our Water sector companies produced 12% of continuing Group turnover and 11% of operating profit*.

Worldwide growth in demand for clean drinking water, industrial process water and wastewater treatment results from continuing industrialisation, urbanisation and population growth. Other factors, such as tighter water quality and waste regulations, environmental issues and water shortages, also stimulate the need for our water technology products. During 2003/04 we saw sales and profits grow in this sector.

We won significant new leak instrumentation business in the US and South-East Asia. In the American mid-west there is growing interest in managing and conserving existing water supplies, instead of further depletion of natural sources. US sales of water conservation instruments doubled.

We won a major contract for leak detection equipment from the city authority in Las Vegas, Nevada. Las Vegas has the fastest growing population of any US city with 20,000 new homes built each year. Nevada's water supplies are under pressure and may hit crisis point without new supplies and conservation measures.

The world market for UV water treatment technology is predicted to double within 5 years, mainly driven by environmental concerns. There is a shift away from chemical techniques in treating drinking water, wastewater and swimming pool water towards the UV process which greatly reduces or eliminates the use of chemicals.

Major progress has been made in the US in supplying UV drinking water treatment plants that comply with new, stringent US Environmental Protection Agency requirements. A 15 million gallons per day treatment plant that we supplied to the city of Henderson, Nevada was the first major project in the US which met the new regulations.

Sales of water analysis instruments were buoyant, particularly in Europe and Australia. A new photometer water analyser, launched during 2003/04, is already the laboratory sector market leader. We will soon launch a low cost water analyser for monitoring private swimming pools and spas, transferring technology developed for the public pool market into the domestic arena. A large UK water company has chosen our ammonia monitoring system to control its wastewater plants, which will positively impact on sales in 2004/05.

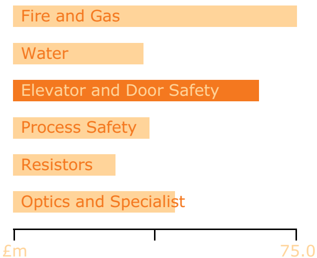
Las Vegas, Nevada, where our leak detection technology helps to conserve the city's water supplies.

Operating Review – Elevator and Door Safety

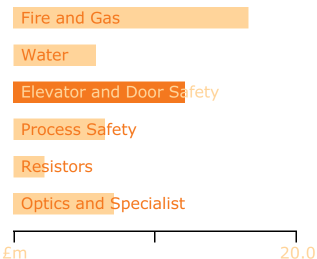
Elevator and Door Safety turnover

Elevator and Door Safety profit*

Segmental turnover, 2004



Segmental profit, 2004*



*before interest, tax and goodwill amortisation – see note 1 on the Accounts

Sector Overview

We are world leaders in infrared and microwave sensors for controlling the opening and closing of elevator doors and automatic doors. Our door sensor products have three functions. They ensure public safety, make buildings more accessible to people with disabilities and optimise traffic within buildings. We also make control systems, voice communication and visual display equipment for elevators. These businesses are based in Belgium, the UK, New Zealand, the US, Singapore and China.

Both the elevator and automatic door markets split into new-build and refurbishment sectors. The new-build sector is dominated by a small number of multinational elevator and door manufacturers, whereas refurbishment projects are usually handled by relatively small local contractors. During 2003/04, this sector produced 23% of continuing Group turnover and 24% of operating profit*.

We saw a large rise in both sales and profits from the Elevator and Door sector in 2003/04. This followed inclusion of the first full year of trading at Belgian door sensor specialist BEA, which we acquired in October 2002. Our other companies in this sector delivered good overall organic growth despite adverse currency movements, reinforcing BEA's excellent progress.

Sales growth in Asia was exceptionally strong, with major volume increases in China, Japan and Australia. We now have two manufacturing facilities in China and satisfy half of the entire Chinese market for both elevator door sensors and automatic door sensors. Sales of in-elevator LCD display panels also achieved substantial growth aided by the Group's worldwide distribution network.

One fundamental driver affecting demand for door automation products is the global trend towards urbanisation. Increasing population densities in cities require high rise office and residential buildings, and also large public access buildings where automatic doors are commonly used.

Population growth is declining in many countries. This demographic shift is creating an ageing population more likely to benefit from elevators and automated doors. New legislation that improves access to public buildings for people with disabilities continually raises demand for our door safety and emergency communication products. We are the clear leader in the US market for automatic door sensors. A new elevator intercom product was introduced mid-year designed to meet new US building codes and sales have been very promising.

New European regulations covering elevator door safety and emergency communications should also help drive up demand in 2004/05. European sales of elevator emergency telephones almost doubled last year and we are rapidly establishing market leadership for these products in the UK.

One in ten of our employees in this sector works on research and development. Innovative new products protect market share where we are dominant and provide leverage into new markets. An entirely new type of visual safety product launched recently warns when elevator doors are closing. This is a unique product that is creating a new market. Another new product that controls pedestrian access barriers in retail and transport facilities is already selling well in Europe.

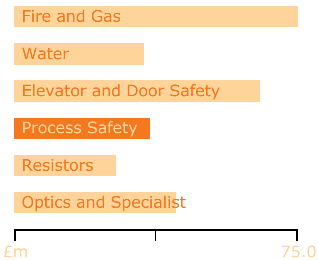
Visitors to The Louvre Museum, Paris, are protected by our elevator safety and door control products.

Operating Review – Process Safety

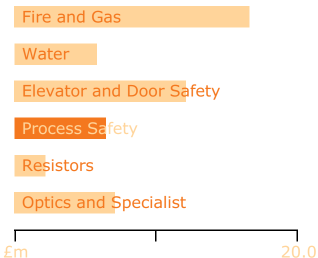
Process Safety turnover

Process Safety profit*

Segmental turnover, 2004



Segmental profit, 2004*



*before interest, tax and goodwill amortisation – see note 1 on the Accounts

Sector Overview

In this sector we make two types of industrial safety products. Our companies are world leaders in safety interlocks, products that safeguard dangerous machinery and process equipment. They protect industrial workers from death or injury and prevent damage to plant. Our second process safety speciality is bursting discs. These devices prevent excessive pressure and protect people, the environment and process equipment from the risk of explosion. Process safety markets are global, but demand varies from one country to another due to wide variation in safety legislation. Customers for our process safety systems range from very small businesses up to the world's largest corporations. Operating from the UK, the US and France, Process Safety generated 13% of continuing Group turnover and 13% of operating profit* in 2003/04.

During 2003/04 buoyancy of the petrochemicals market has been at an all time high, and is still rising. Growth is fuelled by the quest for new energy sources, particularly by China, Japan and the US. High oil prices encourage capital expenditure in petrochemicals exploration and processing which, in turn, creates demand for our process safety products.

We are seeing a worldwide trend towards raising local safety standards to match the best international practice. Oil companies are increasingly adopting the best practices from their worldwide exploration and production sites and applying them globally. This raises safety standards in many territories and strengthens underlying demand for our products. Recent UK and EU safety legislation also continues to exert a positive influence on demand, particularly in the operation of pipelines and pressurised process plant.

Sales of safety interlocks for controlling valves in the petrochemicals sector increased significantly. However, sector performance overall was flat. Increased UK export sales to the enlarged EU offset a decline in UK demand. We responded by developing new, technically innovative products, due for launch in 2004/05, and through diversification.

We have recently launched a unique, patented product, targeted at the growing retail logistics market, which prevents accidents to fork lift truck operators. The initial reaction from some of the UK's largest retailers and logistics companies is very positive. During 2004/05 we will also launch a new generation of industrial access and control products, with benefits far ahead of any competitor, and create sales opportunities in new areas of manufacturing industry worldwide.

Our two bursting disc manufacturers maintained market share during 2003/04. Over the past 3 years, our bursting disc businesses have been restructured; production costs have been cut, new managers have been recruited and new methods of servicing the European market are now in place. The end result is higher product quality, lower cost products, improved delivery and a stream of innovative new products that should increase market share.

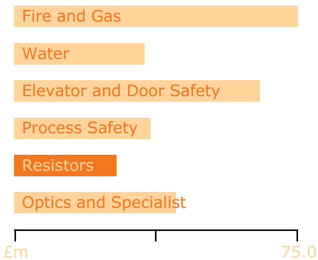
Our process safety products prevent accidents and explosions at chemical and petrochemical plants worldwide.

Operating Review – Resistors

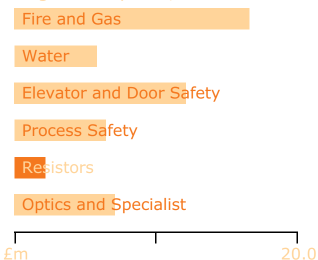
Resistors turnover

Resistors profit*

Segmental turnover, 2004



Segmental profit, 2004*



*before interest, tax and goodwill amortisation – see note 1 on the Accounts

Sector Overview

The high power resistor market is global, with demand subject to macroeconomic trends. The principal applications are in rail transport, the process industries and power distribution where our products are used to safely dissipate electrical energy. Our strategy to maintain world leadership in this sector is to continuously innovate and develop resistor products with global sales potential.

Our six resistor makers, based in the US, Canada, Australia and the UK, contributed 10% of continuing Group sales and 5% of operating profit* in 2003/04.

We succeeded in growing exports in this sector and saw strong sales growth in transit and power filtration markets during 2003/04. However, overall resistor sales were flat and profits declined. The impact of Dollar/Sterling exchange rate movements disguises our North American performance; an 8% Dollar increase in resistor sales translated into a 1% Sterling decline.

Competition in this sector is tougher than it has ever been. We are protecting market share and margins through innovation, overhead cost reduction and raised productivity. With a US economic upturn, the trend of declining demand could reverse. Expansion in key resistor markets, notably mining, metals refining and oil and gas processing, should lead to rising demand.

Sales of filter resistors increased due to rising capital investment by metals processing industries in response to commodity price rises. Tighter US emissions regulations for diesel locomotives, coming into force in 2005, could stimulate rolling stock replacement and restore transit resistor demand to the normal historical level. We supply both of the US diesel locomotive builders. Predictions of higher fuel costs for cars, together with increased government spending on mass transport infrastructure, also suggest that transit sector demand will rise.

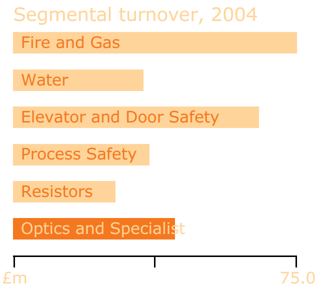
New US safety legislation designed to protect industrial workers from electrical arc flash hazards should stimulate demand for high resistance grounding systems in the future. This technology protects workers from injury. It also cuts costs by reducing production stoppages caused by electrical faults. As the market leader in high resistance grounding equipment in North America, we expect to benefit from the new regulations.

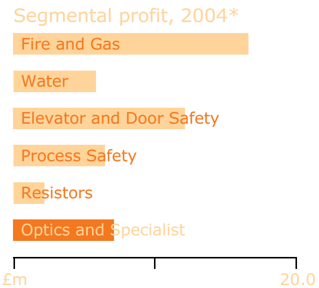
We have continued to rationalise manufacturing between production centres to gain efficiency benefits. Manufacture of transit resistors has been concentrated in the US, creating a true world player, well positioned to exploit the huge Chinese market for urban transit systems.

During 2003/04 our resistor businesses took advantage of the growing commercial opportunities in China. Increased raw materials sourcing from Chinese suppliers has helped shield margins from erosion. At the same time, resistor sales into the Chinese market rose substantially. A new partnership project to manufacture our resistors in Shenzhen, China, will add impetus to Asian regional sales growth in 2004/05 and also deliver highly competitive products to sell into our traditional markets.

In the energy sector, our resistor products protect electrical power distribution networks from damage when faults occur.

Operating Review – Optics and Specialist





*before interest, tax and goodwill amortisation – see note 1 on the Accounts

Sector Overview

We own two world leading optical technology businesses. We make ophthalmic instruments and lenses, for examining eyesight and diagnosing visual defects, and optical sensing systems for measuring colour, brightness and chemical properties. Our secondary focus in this sector is on high precision fluid control products for use in clinical and analytical instrumentation. Both areas have been strengthened by acquisitions since the year end. We have made several changes in this sector, including selling three non-core businesses.

The market for our optical products is global and exports account for a high proportion of sales. Customers for our fluid technology products are primarily high-tech instrument manufacturers, mostly based in the US or Europe. The companies in this sector are based in the UK and the US, and in 2003/04 contributed 15% of continuing Group turnover and 14% of operating profit*.

Improved sales and profits at our core optics and fluid technology companies were offset by slightly disappointing performances from some of the specialist businesses in this sector. Head Office company results are reported within this sector, and their income reduced this year. As a result, the Optics and Specialist sector sales performance was flat in 2003/04 and its profit contribution declined.

Both of our ophthalmic optics companies pushed up export sales, with significant growth in the US, Japan and Australia. Our US ophthalmic lens business has been increasingly successful at developing OEM business. Several manufacturers of electro-optical instruments now design our optical components into their products. Two new types of surgical lens will help protect patients from disease transmission; one format will withstand high temperature sterilisation and another is disposable.

Sales of ophthalmic instruments benefited from a series of new and improved products. The most significant were cordless, battery-powered versions of our indirect ophthalmoscopes, world market leading products. These instruments offer significant benefits to ophthalmologists and initial sales have been encouraging, particularly in the US.

In May 2004 we acquired Ocean Optics, Inc., a manufacturer of optical sensing systems. A world market leader in miniature fibre-optic spectrometers, its specialist measurement instruments are used in consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics. Like other Halma businesses, Ocean Optics has strong positions in niche markets and significant growth opportunities exist for its optical sensor-based products.

Three non-core subsidiaries were sold during 2003/04. They did not achieve our profit growth or return on investment targets due to long-term market changes.

We extended our interests in fluid technology with the acquisition of Diba Industries, Inc. in May 2004. Our specialist fluid technology companies grew sales in two high-tech markets: bio-hazard detection and clinical diagnostics. We won contracts for critical components built into biological hazard detection equipment, a new emerging market. These systems analyse air samples from mail sorting machines and identify anthrax or other terrorist biological threats. The United States Postal Service will use this equipment in mail distribution centres across the US.

Biological hazard detection is an emerging market for our high-precision fluid control and optical sensing products.

HALMA

Shareholder Information

Financial calendar

2003/04 Interim results	9 December 2003
2003/04 Interim dividend paid	9 February 2004
Trading update	29 April 2004
2003/04 Preliminary results	22 June 2004
2003/04 Report and Accounts issued	5 July 2004
Annual General Meeting	4 August 2004
2003/04 Final dividend payable	23 August 2004
Trading update	end October 2004
2004/05 Interim results	7 December 2004
2004/05 Interim dividend payable	February 2005
Trading update	end April 2005
2004/05 Preliminary results	June 2005

Analysis of shareholders
at 2 June 2004

	Shareholders		Shares	
	Number	%	Number	%
Number of shares held				
1 - 7,500	5,439	78.4	11,105,243	3.0
7,501 - 25,000	866	12.5	11,446,651	3.1
25,001 - 100,000	366	5.3	17,792,427	4.8
100,001 - 750,000	191	2.8	57,086,667	15.6
750,000 and over	63	1.0	269,588,043	73.5
	6,925	100.0	367,019,031	100.0
Category of shareholders				
Notifiable shareholders	3	0.1	103,099,183	28.1
Directors	8	0.1	1,166,163	0.3
Private shareholders	5,091	73.5	33,709,943	9.2
Others	1,823	26.3	229,043,742	62.4
	6,925	100.0	367,019,031	100.0

Share price

London Stock Exchange, pence per 10p share					
	2004	2003	2002	2001	2000
Highest	**151**	166	175	145	137
Lowest	**109**	97	126	82	94
Year end	**149**	114	164	129	95

Dividends

Pence per 10p share					
	2004	2003	2002	2001	2000
Interim	**2.44**	2.285	2.077	1.806	1.570
Final	**3.75**	3.527	3.206	2.787	2.423
Total	**6.19**	5.812	5.283	4.593	3.993

Investor information

Visit our website, 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 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 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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Bristol BS99 7NH
UK
Tel: +44 (0)870 702 0000
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Fax: +44 (0)20 7357 8533

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Fax: +44 (0)20 7283 4667
E-mail: halma@drkw.com

Annual General Meeting

The 110th Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 4 August 2004 at 12 noon. The Notice convening the Meeting is on page 74.

Directors and Advisers

Board of Directors	E Geoffrey Unwin *Chairman** 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* Stephen R Pettit MSc*
Secretary	Carol T Chesney BA FCA *Non-executive
Executive Board	Stephen R O'Shea *Chief Executive* Nigel J Young *Specialist Products* Neil Quinn *Fire* Kevin J Thompson *Group Finance Director* John S Campbell *Resistors* Keith J Roy *Water and Gas* William J Seymour *Elevator and Door Safety* Andrew J Williams *Optics* Adam J Meyers *Fluid Technology* Nigel J B Trodd *Process Safety* Andrew J Richardson *Water Management*
Registered Office	Misbourne Court Rectory Way Amersham Bucks HP7 0DE Telephone: +44 (0)1494 721111 Fax: +44 (0)1494 728032 Website: www.halma.com
Registered Number	40932
Auditors	Deloitte & Touche LLP 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 50 Stratton Street London W1J 8LL
Brokers and Joint Financial Advisers	Dresdner Kleinwort Wasserstein Limited 20 Fenchurch Street London EC3P 3DB
Solicitors	CMS Cameron McKenna Mitre House 160 Aldersgate Street London EC1A 4DD
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH Telephone: +44 (0)870 702 0000

Halma Management Team

1 Geoff Unwin
(aged 61) is non-executive Chairman of the Halma Group and serves on the Audit Committee, Remuneration Committee and the Nomination Committee (Chairman). He was appointed Deputy Chairman and Chairman Elect in September 2002 and Chairman in July 2003. He is Chairman of United Business Media plc, Trigenix Limited and Liberata plc and a non-voting board director of Capgemini Group. He is also an advisory Board member of Hartwell plc and Palamon Capital Partners LLP.

3 Stephen Pettit
(aged 53) was appointed a non-executive Director of Halma in September 2003 and serves on the Audit Committee and Remuneration Committee. He is a non-executive Director of Norwood Systems, National Grid Transco plc, National Air Traffic Services and KBC Advanced Technologies plc.

5 Andrew Williams
(aged 37) is Chief Executive of the Optics 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 Chartered Engineer and a production engineering graduate of Birmingham University.

7 Carol Chesney
(aged 41) 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.

9 Bill Seymour
(aged 44) is Chief Executive of the Elevator and Door Safety 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.

11 Andrew Walker
(aged 52) was appointed a non-executive Director of Halma in May 2003 and serves on the Audit Committee (Chairman) and Remuneration Committee. He is a non-executive Director of Ultra Electronics Holdings plc, Manganese Bronze plc and API Group plc.

13 Andrew Richardson
(aged 39) is Chief Executive of the Water Management Division. He joined Halma in April 2004 and is a member of the Executive Board. Andrew is an engineering graduate of Cambridge University. Prior to joining Halma he was Divisional Managing Director of the Clutch Division for the Automotive Products Group.

15 Richard Stone
(aged 61) was appointed a non-executive Director of Halma in January 2001. He serves on the Audit Committee, Remuneration Committee (Chairman) and Nomination Committee and is the Senior Independent Director. He is Chairman of Shearings Group Limited and CSW Group Limited, a non-executive Director of British Nuclear Fuels plc, Gartmore Global Trust p.l.c., Trust Union Finance (1991) plc, Engandscot Limited and TR Property Investment Trust plc.

2 Stephen O'Shea
(aged 58) 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.

4 Kevin Thompson
(aged 44) 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.

6 Nigel Young
(aged 54) is Chief Executive of the Specialist Products Division. He joined Halma as Managing Director of Fortress Interlocks Limited when the company joined the Group in 1987. Nigel was appointed Assistant Divisional Chief Executive 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.

8 Adam Meyers
(aged 42) is Chief Executive of the Fluid Technology Division. He joined Halma in 1996 as President of Bio-Chem Valve Inc. He was appointed Assistant Divisional Chief Executive 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.

10 Neil Quinn
(aged 54) is Chief Executive of the Fire 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.

12 Keith Roy
(aged 54) is Chief Executive of the Water and Gas 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).

14 John Campbell
(aged 45) 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.

16 Nigel Trodd
(aged 46) is Chief Executive of the Process Safety Division. He joined Halma in July 2003 and is a member of the Executive Board. Prior to joining Halma he was V.P. Europe, Middle East and Africa for Tyco Suppression Systems based in Frankfurt. Nigel is a business studies graduate of Thames Valley University and is a member of the Chartered Institute of Marketing.


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Report of the Directors

The Directors present their annual report on the affairs of the Group, together with the Accounts and the Independent Auditors' Report, for the 53 weeks to 3 April 2004.

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 53 weeks to 3 April 2004 is set out on page 48. The Group profit before taxation, goodwill amortisation and exceptional items is £50,284,000 (2003: £46,508,000). The profit after taxation, goodwill amortisation and exceptional items amounts to £22,322,000 (2003: £28,359,000).

Ordinary dividends

The Directors will submit a resolution at the Annual General Meeting proposing a final dividend of 3.75p per share and if approved this dividend will be paid on 23 August 2004 to ordinary shareholders on the register at the close of business on 23 July 2004. Together with the interim dividend of 2.44p per share already paid, this will make a total of 6.19p per share for the financial year.

Review

A review of activities together with business and future developments is included on pages 7 to 25 inclusive.

Share capital

Details of share capital issued in the financial year are set out in note 19 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.

Articles of Association

In accordance with the Electronic Communications Act 2000 and in accordance with the Institute of Chartered Secretaries and Administrators' recommendations, the Company is proposing to amend its Articles to allow it the flexibility to introduce the use of electronic communications in circumstances where the Directors think fit and where agreed between the members and the Company. This includes the use of electronic communications for proxy voting (Articles 85 to 90) and for the sending of notices to an address notified by the member for that purpose or the posting of such notices on a website with corresponding notification to the members (Articles 150 to 156). There are also consequential amendments in relation to the deemed date of delivery of an e-mail (Article 155).

The amended Articles also allow for minor changes to the conduct of meetings of the Board and to the appointment of directors and alternate directors (Articles 101, 109, 119 and 123). There are also amendments in relation to: the definitions and interpretations of words and phrases (Article 2); the method of consent for a variation of class rights (Article 11.1); the effects of omission to send or non-receipt of a notice (Article 59); amendments to resolutions (Article 69); votes of incapable members (Article 81); and the authentication of documents (Article 130).

It is the Board's intention, with the personal consent of each member, to gradually introduce electronic communications with members upon the adoption of the amended Articles of Association.

Copies of the proposed new Articles of Association and interlined copies of the current Articles of Association are available for inspection at CMS Cameron McKenna, Mitre House, 160 Aldersgate Street, London EC1A 4DD until the close of the Annual General Meeting and will also be available at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL for fifteen minutes preceding, and then during, the Annual General Meeting.

Purchase of own shares

The Company was authorised at the 2003 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 2004 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 3 April 2004 the Company's trade creditors represented 35 days (2003: 38 days) of annual purchases.

Employees

Matters which affect the Group are communicated to employees through formal and informal meetings, internal announcements, the Group Intranet, 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 with particular reference to non-discrimination and non-harassment on the basis of ethnic origin, religion, gender, age, disability and sexual orientation. Halma 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 40 to 45. The special business of the Annual General Meeting contains an ordinary resolution seeking such shareholder approval.

Corporate responsibility

The Group's Corporate Responsibility report is set out on pages 33 to 35.

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 £9,923 (2003: £1,308) during the financial year. There were no political donations (2003: £nil).

Directors

The Directors of the Company are listed on page 27. Brief biographies are set out on page 28.

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

Mr D S Barber retired from service with the Group and resigned as Chairman of the Board immediately after the 2003 Annual General Meeting on 29 July 2003. Following the resignation of Mr Barber, Mr E G Unwin, who was appointed Deputy Chairman (Chairman Elect) on 2 September 2002, was appointed Chairman of the Board with effect from the close of the 2003 Annual General Meeting.

Mr S R Pettit was appointed to the Board as a non-executive Director on 16 September 2003.

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

Directors proposed for re-election

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

Mr S R Pettit, who joined the Board since the last Annual General Meeting, retires under Clause 95 of the Articles of Association and being eligible offers himself for re-election.

Shareholdings

As at 11 June 2004 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	17.8
Sprucegrove Investment Management Limited	25,267,545	6.8
Legal & General Investment Management Limited	12,320,633	3.3

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

Auditors

Resolutions will be proposed at the Annual General Meeting to re-appoint Deloitte & Touche LLP as Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board
C T Chesney Secretary
Misbourne Court Rectory Way Amersham Bucks HP7 0DE
22 June 2004

Corporate Responsibility Report

Socially responsible investment

Investing in Halma shares meets the criteria of many professional and private investors who base their decisions on environmental, ethical and social considerations. The Group is a world leader in several key environmental technologies and has a reputation for honesty and integrity in its relationships with employees, customers and business partners.

Social conditions can be improved for all through the creation of wealth. Halma creates wealth responsibly allowing our employees, customers, business partners and shareholders to determine where this wealth is best distributed.

In each of the following areas, the regulatory demands upon us vary considerably around the world, so Halma establishes the core structure to ensure that Group companies fully comply with regulatory requirements while permitting them to tailor the solutions to their particular needs.

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.

Our products
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. 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. Our commitment to the development of equipment for measuring environmental changes and controlling the damaging impact of industrial activities is long-term. For example, Palmer Environmental's Permalog® is an acoustic leak noise logger which transmits leakage information to a radio receiver to enable leaks in water supply pipes to be located for prompt repair thereby reducing the loss of clean water. Atmospheric levels of highly flammable hydrogen can be precisely monitored in locations such as laboratories, refineries, battery rooms and fuel cell facilities with Crowcon's TXgard-IS+.

During the past year, Perma Pure LLC elected to purchase a state-of-the-art extrusion system for precision tubing to replace its existing extruder. Perma Pure anticipated that the new extruder would reduce consumption of an expensive fluoropolymer Nafion®, which it uses as a key component, by reducing rejected material and permitting extrusion of finer walled tubing, saving material as well. Six months after installing the new extruder at a cost of $250,000, Perma Pure has already observed not only increased production capacity but also a considerable reduction in rejected material, amounting to more than $50,000 per annum. Additional savings are anticipated as the dimensions of the extruded tubing are refined to benefit from the narrow tolerances of the new extruder.

We make safety equipment for use at work, in public places and in transportation systems that contribute to increased personal safety by ensuring safe practice at work, protecting people from fire and making elevators and automatic doors safe and effective. We are the major world supplier in several of these areas. Volk Optical has developed a new autoclavable vitrectomy lens for use in retinal surgery which means that ethylene oxide gas is not required for sterilisation.

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

A 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.

Demonstrating the Group's commitment to ensure all companies comply with applicable regulations, Apollo Fire Detectors Limited is working on complying with the requirements of the Restriction of Hazardous Substances Directive removing cadmium, chromium, mercury and certain flame-retardants from their products even though fire detectors are currently exempt from the EU legislation. Apollo has also commenced its compliance plan for the Waste Electrical and Electronic Equipment Directive that comes into force in August 2005.

Environmental management system
We are committed to developing and implementing an environmental management system ('EMS') throughout the Group to measure, control and, where practical, reduce our environmental impacts. We are developing performance indicators that will assist local management in implementing the policy and developing an EMS. The requirement for an EMS and the related reporting has been rolled out to all UK business units, which represent over 50% of Group production facilities in terms of external turnover. All Group companies are encouraged to undertake ISO 14001, the international environmental standard, accreditation where warranted. The requirement to implement an EMS will be extended to the rest of the Group in the medium term.

None of the UK Group companies has incurred a Health and Safety Executive fine, received a notification of a breach or been prosecuted during the year under review. Equivalent information is not currently collected for the rest of the world.

Our impacts
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.

The Group is sponsoring an Innovation Initiative which encourages the research and development teams at each Group company to re-examine their product designs with a view to being more efficient and effective using components which are more environmentally acceptable.

Across the Group we also operate programmes, where commercially viable, to ensure the responsible disposal of packaging, including the re-use and recycling of all packaging types and, where necessary, the use of licensed contractors to dispose of non-recyclable waste packaging safely. In addition, the use of biodegradable packaging material is on the increase in Group companies. One Group company, Memco Limited has invested in a cardboard compactor, which reduces the volume of their cardboard waste considerably. The waste is now collected, free of charge, by a local company who recycles the cardboard.

Group companies are encouraged to improve energy efficiency, reduce waste and emissions and to reduce the use of materials in order to reduce our environmental impact. The Group is carrying out an audit in 2004/05 to establish baseline data on emissions to air and water, water and energy consumption and waste production. The data collected will enable the Group to set objectives for reducing its environmental impacts in those areas and to look at setting targets for reduction in key areas. The Group plans to report shortly on CO_2 emission and water consumption as well as waste disposal.

The baseline data is expected to confirm that the main areas of impact on the environment are energy consumption and waste disposal. The Group does not operate a fleet of distribution vehicles although we do own a number of company cars. Few of our assembly processes require water, so there are not large quantities of waste water to manage.

After the 2004/05 data collection exercise is completed and targets have been set in key areas of environmental impact, the Group is committed to examining the establishment of green procurement policies.

The Group's environmental performance will continue to be reported in both 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 and comfortable working environment for employees, visitors and the public. The Group has a health and safety policy, which is set out on the Company's website. It is the Group's policy to manage its activities to avoid causing any unnecessary or unacceptable risks to health and safety. The policy is understood by all Group companies. Given the autonomous structure of the Group, operational responsibility for compliance with relevant local health and safety regulations is delegated to the board of directors of each Group company. Health and safety training is carried out within companies as appropriate and we intend to commence collecting data on accident rates with a view to publishing them in the medium term. Adequate internal reporting exists in order that the Group Finance Director may monitor each company's compliance with this policy.

Ethics

Halma encourages its employees to act fairly in their dealings with fellow employees, customers, suppliers and business partners. Our suppliers are of high quality and operate to acceptable international standards. Halma operates a confidential ''whistleblowing'' policy, which enables all Group employees to raise any concerns they may have.

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.

Corporate 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 in June 1998.

Application of the principles of good governance

The Group is controlled and directed by a Board consisting of a non-executive Chairman, four executive Directors and three other non-executive Directors. Their biographies appear on page 28. The Board considers each of the non-executive Directors to be independent. The Board recognises that the revised Combined Code considers that a non-executive director ceases to be independent upon appointment as chairman, however the Board believes that Mr Unwin's Chairmanship of the Board does not interfere with his independence as regards, in particular, membership of the Audit and Remuneration Committees. In assessing independence, the Board considers that the Chairman and non-executive Directors are independent of management and free from business and other relationships which could interfere with the exercise of independent judgement now and in the future. 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 with further ad hoc meetings as required. 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.

Mr Stone chairs the Remuneration Committee of which each of the non-executive Directors is a member. Mr Walker and Mr Pettit joined the Committee during the year. Mr Barber was a member until his retirement in July 2003 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 and are available on request from the Company Secretary. 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. The Committee meets at least twice per year.

Following Lord McGowan's death, Mr Unwin chaired the Audit Committee. In October 2003, Mr Walker assumed the Chairmanship of 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 and are available on request from the Company Secretary. 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, Group Finance Director and representatives from the Auditors attend Committee meetings by invitation in order to provide appropriate advice. The Committee meets at least three times per year.

Mr Barber chaired the Nomination Committee until his retirement at which point Mr Unwin assumed the role of Chairman. Mr Stone and Mr O'Shea are also members of the Committee. Formal terms of reference exist which follow the recommendations of the Combined Code and are available on request from the Company Secretary. The Committee makes recommendations to the Board on the appointment of new Directors. External search consultancies are retained when recruiting non-executive Directors. The Committee meets at least annually.

Control of divisional operating matters is delegated to the Executive Board of which the Group Chief Executive, Group Finance Director and all of the Divisional Chief Executives are members. Biographies of Executive Board members appear on page 28. The Group Chief Executive chairs the Executive Board, which meets regularly, thereby ensuring the Board's strategies are communicated to those overseeing operations.

The Executive Board reviews operational activities, trading results, budgets, policy matters, investment opportunities, resource allocation and risk exposures. Any matters arising out of the Executive Board meetings are reported to the Board via the Group Chief Executive's report to the Board.

The Group Chief Executive and Group Finance Director also 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 26.

The Group website, 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. The website also contains the facility to request e-mail alerts relating to announcements made by the Group.

Going concern

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

Internal control

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

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

The Group's external auditors, Deloitte & Touche LLP, 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 each year and identify mitigating actions in place or proposed for each significant risk. A risk register is compiled from this information, against which action is monitored through to resolution. In addition, Divisional Chief Executives carry out an independent risk assessment for each operating company. A review of Group risks is also 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.
- Internal control visits are carried out by senior finance staff resulting in actions fed back to each company and followed up by Divisional Finance Directors; visit reports are coded in terms of risk with any significant control failings reported directly to the Audit Committee and a summary of all such visits reported to the Audit Committee regularly; senior finance staff also carry out financial reviews at each operating company prior to publication of half year and year end figures.

- 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.

As noted above, a programme of internal control visits is conducted. Following its review of internal control activities in 2004, the Audit Committee has now put in place procedures for independent reporting of the outcome of these visits to the Audit Committee. Whilst internal audit is not a separate function within the Group, the Board anticipates that the procedures now in place will allow it to report in 2004/05 that it has procedures which amount to an internal audit function.

Auditor independence

The Audit Committee has responsibility for reviewing auditor independence and objectivity annually. During the year, the Committee set down the "Policy on Auditor Independence and Services provided by the External Auditor". This policy states that the Group will only use the appointed external auditor for non-audit services in cases where these services do not conflict with the auditor's independence. The policy also sets a fee level above which non-audit services are subject to a tendering process.

Compliance with the code of best practice

The Company complied with the provisions of the Combined Code throughout the financial year.

Report on Remuneration

The following sections of the Report on Remuneration have been audited: the table of Directors' remuneration; pension benefits; 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 run the Group successfully, 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 2003/04 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 E G Unwin, Mr A J Walker and Mr S R Pettit. Messrs Walker and Pettit were appointed to the Committee during the past year. Mr D S Barber was a member of the Committee prior to his retirement and Lord McGowan was a member prior to his death. The Board has considered and confirmed Mr Stone's independence following the third anniversary of his appointment to the Board. The Board has also affirmed its decision to appoint Mr Unwin to the Committee as the Board believes that his Chairmanship of the Board does not interfere with his independence as regards membership of the Committee. Mr Unwin does not take part in discussions concerning his own remuneration.

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. The Committee's Terms of Reference are available from the Company Secretary on request.

Basic salary and benefits

In determining recommended basic salary levels for each individual, the Committee does not currently employ remuneration consultants but uses independent surveys, compiled by New Bridge Street Consultants, IDS and Deloitte & Touche LLP, 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 Committee recognises the need to continually assess and evaluate such incentives and therefore has asked Ernst & Young LLP to assist them in developing the next phase of incentive arrangements to introduce across the Group.

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. The exercise criteria for these two plans are noted in Note 19 on the Accounts. No further grants may be made from either of these plans.

Options under the 1999 Company Share Option Plan have more stringent exercise criteria than the 1990 and 1996 Share Option Plans. Section 'A' options are exercisable after three years if the Company's earnings per share growth exceeds the growth in the Retail Price Index plus 3% per annum. Section 'B' options are exercisable after five years if the Company's earnings per share growth exceeds the earnings per share growth of all but the top quarter of companies which were within a peer group at the date of grant of any option.

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

Performance related bonus scheme

This scheme, which applies only to executive Directors and Divisional Chief Executives, is reviewed annually by the Remuneration Committee and approved by the Board. Without approval of this scheme there is no alternative bonus arrangement for Directors and Divisional Chief Executives. During 2003/04 the Remuneration Committee carefully considered existing bonus arrangements and determined that incentive levels are appropriately set.

In the case of a Divisional Chief Executive a bonus would be earned if the profit of the Division for which he is responsible exceeds a target calculated from the profits of the three preceding financial years. The profits calculated for this purpose regard each Division as a stand-alone group of companies charging it with the cost of capital it utilises including the cost of acquisitions.

For the Group Chief Executive and Group Finance Director, bonuses are based on the aggregated profit of the Divisions exceeding 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. The percentage payable in cash commences at a low level for modest growth increasing, in percentage terms, as performance improves. The maximum cash bonus payable to any one Director or Divisional Chief Executive is capped at 100% of his salary.

Directors' remuneration

	Salaries and fees £000	Bonus £000	Benefits £000	2004 Total £000	2003 Total £000
D S Barber	52	–	–	52	81
E G Unwin	112	–	12	124	65
S R O'Shea	315	90	24	429	314
C Q Summerhayes	–	–	–	–	16
Lord McGowan	8	–	–	8	22
H M J Ritchie	–	–	–	–	10
K J Thompson	160	46	9	215	158
N Quinn	160	81	18	259	162
R A Stone	32	–	–	32	22
K J Roy	135	2	18	155	143
A J Walker	27	–	–	27	–
S R Pettit	16	–	–	16	–
	1,017	219	81	1,317	993

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 executive 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%.

Details of the value of individual pension entitlements are shown below.

	Age at 3.4.04	Years of service at 3.4.04	Accrued pension 2003 £000	Increase in the year £000	Accrued pension 2004 £000
S R O'Shea	58	28	145	16	165
K J Thompson	44	16	44	6	51
N Quinn	54	16	52	6	60
K J Roy	53	11	23	9	33

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

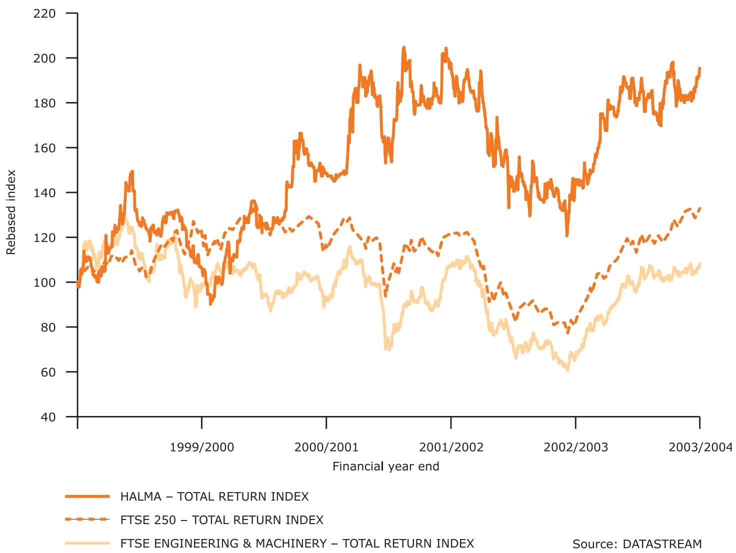
The increase in accrued pension during the year is the amount in excess of the increase due to inflation.

	Transfer value 29.3.03 £000	Directors' contributions £000	Increase in transfer value net of contributions £000	Transfer value 3.4.04 £000
S R O'Shea	2,279	25	418	2,722
K J Thompson	363	12	69	444
N Quinn	674	12	126	812
K J Roy	297	10	132	439

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 3 April 2004 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 95% compared to 33% for the FTSE 250 and 8% 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 92p and the total of dividends in respect of the year ended 3 April 1999 was 3.327p per share. The Halma p.l.c. ordinary share price at 3 April 2004 was 149.25p and the total of dividends in respect of the year then ended was 6.19p 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 3.4.04	Shares 29.3.03
E G Unwin	38,250	38,250
S R O'Shea	258,075	242,482
K J Thompson	49,749	47,786
N Quinn	33,788	25,596
R A Stone	5,000	5,000
K J Roy	744,587	744,587
A J Walker	35,714	–*
S R Pettit	1,000	–*

*as at date of appointment

There are no non-beneficial interests of Directors.

There were no changes in Directors' interests from 3 April 2004 to 22 June 2004.

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

	As at 29.3.03	Granted	Exercised	Lapsed	As at 3.4.04
S R O'Shea	1,458,328	94,030	142,398	–	1,409,960
K J Thompson	579,346	167,164	8,354	–	738,156
N Quinn	731,358	167,164	34,442	–	864,080
K J Roy	436,992	40,299	16,177	–	461,114

The total gains on options exercised by Directors during the financial year amounted to £39,853. 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 an exercise price of 134p. The closing middle market price of the Company's ordinary shares on Friday, 2 April 2004, the last trading day preceding the financial year end, was 149.25p per share and the range during the year was 109p to 151.25p.

Details of Directors' options outstanding at 3 April 2004 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 149.25p.

2 Not yet exercisable, will only be exercisable when the performance criteria, set out above, have been met and have an exercise price per share of less than 149.25p.

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 greater than 149.25p.

	Status of options (see above)	Year of grant	Number of shares	Weighted average exercise price (p) per share
S R O'Shea	1	1994-99	690,131	126.34
	2	1997-00; 2002-03	619,029	132.68
	3	2001	100,800	163.50
K J Thompson	1	1994-98	260,206	121.73
	2	1997-00; 2002-03	429,550	125.15
	3	2001	48,400	163.50
N Quinn	1	1994-99	297,630	120.38
	2	1997-00; 2002-03	469,550	123.64
	3	2001	96,900	163.50
K J Roy	1	1994-99	169,565	120.78
	2	1997-00; 2002-03	236,849	132.61
	3	2001	54,700	163.50

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

The Company's Register of Directors' Interests, which is open to inspection at the Registered Office, contains full details of Directors' shareholdings and share options.

Service contracts

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 reduces monthly in the two years preceding normal retirement. At the date of this report, Mr O'Shea's notice period is, effectively, 18 months. The Board reviewed this contract term during the year and confirmed its appropriateness. All other executive Directors have contracts with a notice period of one year. None of the contracts has pre-determined compensation clauses in the event of early termination. The Board and the Remuneration Committee confirm that these contracts are appropriate having regard, amongst other things, to the individuals' length of service.

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 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 2003/04 was set at £108,000 per annum excluding Committee membership fees, 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 by the Board of Directors in April 2004.

By Order of the Board

R A Stone   Chairman of the Remuneration Committee
Misbourne Court   Rectory Way   Amersham   Bucks HP7 0DE
22 June 2004

Responsibilities of the Directors

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 at any time 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 48 to 73 and the disclosures on pages 40 to 45 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.

Independent Auditors' Report

To the Members of Halma p.l.c.

We have audited the consolidated financial statements of Halma p.l.c. for the 53 weeks to 3 April 2004 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 3 April 2004 and of the profit of the Group for the 53 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 LLP
Chartered Accountants and Registered Auditors
Reading
22 June 2004

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.

Consolidated Profit and Loss Account

£000

	Notes	53 weeks to 3 April 2004 Before goodwill amortisation and exceptional items	53 weeks to 3 April 2004 Goodwill amortisation and exceptional items	53 weeks to 3 April 2004 Total	52 weeks to 29 March 2003 Before goodwill amortisation and exceptional items	52 weeks to 29 March 2003 Goodwill amortisation and exceptional items	52 weeks to 29 March 2003 Total
Turnover	1						
Continuing operations		279,611	–	279,611	254,001	–	254,001
Discontinued operations		13,029	–	13,029	13,292	–	13,292
		292,640	–	292,640	267,293	–	267,293
Operating profit	3						
Continuing operations		50,422	(4,209)	46,213	46,023	(3,224)	42,799
Discontinued operations		(370)	(11)	(381)	77	(11)	66
		50,052	(4,220)	45,832	46,100	(3,235)	42,865
Exceptional items	4						
Loss on sale of businesses		–	(3,394)	(3,394)	–	–	–
Associated goodwill		–	(5,755)	(5,755)	–	–	–
Loss on disposal of discontinued operations		–	(9,149)	(9,149)	–	–	–
Profit on ordinary activities before interest and taxation		50,052	(13,369)	36,683	46,100	(3,235)	42,865
Interest	7	232	–	232	408	–	408
Profit on ordinary activities before taxation	1	50,284	(13,369)	36,915	46,508	(3,235)	43,273
Taxation	8	(15,727)	1,134	(14,593)	(15,279)	365	(14,914)
Profit for the financial year		34,557	(12,235)	22,322	31,229	(2,870)	28,359
Ordinary dividends	9			(22,725)			(21,246)
(Loss)/profit transferred (from)/to reserves	10			(403)			7,113
Earnings per ordinary share before goodwill amortisation and exceptional items	2			9.44p			8.55p
Earnings per ordinary share	2			6.09p			7.76p
Diluted earnings per ordinary share	2			6.09p			7.75p

The notes on pages 55 to 73 form part of these Accounts.

Consolidated Balance Sheet

£000

	Notes	At 3 April 2004	At 29 March 2003
Fixed assets			
Intangible assets	11	71,425	76,592
Tangible assets	12	47,139	49,883
		118,564	126,475
Current assets			
Stocks	13	31,208	35,186
Debtors	14	67,080	73,076
Short-term deposits		33,898	14,309
Cash at bank and in hand		14,584	13,265
		146,770	135,836
Creditors: amounts falling due within one year			
Borrowings	15	26,934	27,667
Creditors	16	44,394	46,090
Current taxation		5,563	5,286
Dividends payable		13,762	12,892
		90,653	91,935
Net current assets		56,117	43,901
Total assets less current liabilities		174,681	170,376
Creditors: amounts falling due after one year	17	1,254	1,665
Provisions for liabilities and charges	18	6,067	5,265
		167,360	163,446
Capital and reserves			
Called up share capital	19	36,677	36,549
Share premium account	10	7,768	6,375
Capital redemption reserve	10	185	185
Profit and loss account	10	122,730	120,337
Equity shareholders' funds		167,360	163,446

Approved by the Board of Directors on 22 June 2004

E G Unwin   K J Thompson   Directors

Statement of Total Recognised Gains and Losses £000

	2004 53 weeks	2003 52 weeks
Profit for the financial year	22,322	28,359
Other recognised gains and losses		
Exchange adjustments	(2,799)	(2,408)
Related corporation tax	–	364
	(2,799)	(2,044)
Recognised gains and losses relating to the year	19,523	26,315

Movements in Equity Shareholders' Funds

	Notes	2004 53 weeks	2003 52 weeks
Profit for the financial year		22,322	28,359
Dividends		(22,725)	(21,246)
(Loss)/profit transferred (from)/to reserves	10	(403)	7,113
Total other recognised gains and losses		(2,799)	(2,044)
Net proceeds of shares issued		1,521	820
Goodwill transferred to the Consolidated Profit and Loss Account in respect of businesses sold		5,595	–
Increase in equity shareholders' funds		3,914	5,889
Equity shareholders' funds brought forward		163,446	157,557
Equity shareholders' funds carried forward		167,360	163,446

Consolidated Cash Flow Statement £000

	Notes	2004 53 weeks	2003 52 weeks
Cash flow from operating activities	22	59,782	60,309
Return on investments and servicing of finance			
Interest received		952	1,280
Interest paid		(731)	(622)
		221	658
Taxation			
Current taxation paid		(14,093)	(15,498)
Capital expenditure			
Purchase of tangible fixed assets		(9,686)	(11,257)
Sale of tangible fixed assets		1,004	1,872
		(8,682)	(9,385)
Acquisitions and disposals			
Acquisition of businesses	22	(2,947)	(49,857)
Cash and overdrafts acquired		–	2,655
Disposal of businesses		4,567	–
		1,620	(47,202)
Equity dividends paid		(21,855)	(20,066)
		16,993	(31,184)
Management of liquid resources			
(Increase)/decrease in short-term deposits	22	(19,662)	20,064
Financing			
Issue of ordinary share capital		1,521	820
Increase in loans		2,683	13,399
		4,204	14,219
Increase in cash	22	1,535	3,099

Halma p.l.c. Balance Sheet

£000

	Notes	At 3 April 2004	At 29 March 2003
Fixed assets			
Tangible assets	12	3,136	3,663
Investments	20	40,959	42,760
		44,095	46,423
Current assets			
Debtors	14	124,042	119,983
Short-term deposits		32,410	14,000
Cash at bank and in hand		–	57
		156,452	134,040
Creditors: amounts falling due within one year			
Borrowings	15	26,758	27,506
Creditors	16	21,376	17,084
Current taxation		1,138	1,462
Dividends payable		13,762	12,892
		63,034	58,944
Net current assets		93,418	75,096
Total assets less current liabilities		137,513	121,519
Creditors: amounts falling due after one year	17	1,157	143
Provisions for liabilities and charges	18	294	534
		136,062	120,842
Capital and reserves			
Called up share capital	19	36,677	36,549
Share premium account	10	7,768	6,375
Capital redemption reserve	10	185	185
Profit and loss account	21	91,432	77,733
Equity shareholders' funds		136,062	120,842

Approved by the Board of Directors on 22 June 2004

E G Unwin   K J Thompson   Directors

Accounting Policies

Basis of accounting

The accounts set out on pages 48 to 73 are prepared under the historical cost convention and comply with applicable United Kingdom Accounting Standards. The principal Group accounting policies have been applied consistently throughout the current and preceding year and are described below. 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 3 April 2004. 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. Transactions are recorded as sales when the delivery of products or performance of services takes place in accordance with the contracted terms of sale.

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

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

Pensions
The Group makes contributions to various pension schemes, covering the majority of its employees, which are charged against profits on a systematic and rational basis over the period during which benefit is derived from the 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.

Notes on the Accounts £000

1 Segmental analysis

Geographical analysis

	By destination		By origin	
	2004	2003	2004	2003
Turnover				
United Kingdom	77,534	70,503	159,462	148,902
United States of America	84,047	82,003	87,958	84,724
Europe excluding UK	70,730	58,941	43,690	30,823
Far East and Australasia	28,054	24,385	14,133	10,199
Africa, Near and Middle East	9,944	9,576	–	–
Other	9,302	8,593	2,853	2,840
Inter-segmental sales	–	–	(28,485)	(23,487)
Turnover from continuing operations	279,611	254,001	279,611	254,001
Discontinued operations	13,029	13,292	13,029	13,292
Group turnover	292,640	267,293	292,640	267,293
Profit before taxation				
United Kingdom			26,601	24,691
United States of America			13,617	14,366
Europe excluding UK			7,111	5,228
Other countries			3,093	1,738
Continuing operations			50,422	46,023
Discontinued operations			(370)	77
Segmental profit			50,052	46,100
Goodwill amortisation and exceptional items			(13,369)	(3,235)
Interest			232	408
Profit on ordinary activities before taxation			36,915	43,273
Net assets				
United Kingdom			41,348	43,745
United States of America			16,873	22,916
Europe excluding UK			11,494	12,659
Other countries			4,672	4,609
Continuing operations			74,387	83,929
Discontinued operations			–	3,018
			74,387	86,947
Net cash/(debt)			21,548	(93)
Net tangible assets			95,935	86,854
Intangible assets			71,425	76,592
Equity shareholders' funds			167,360	163,446

Notes on the Accounts continued £000

1 Segmental analysis continued

Sector analysis

	2004	2003
Turnover		
Fire and Gas	74,998	70,026
Water	34,485	33,090
Elevator and Door Safety	65,070	46,308
Process Safety	36,030	35,241
Resistors	27,195	27,493
Optics and Specialist	42,824	42,704
Inter-segmental sales	(991)	(861)
Turnover from continuing operations	279,611	254,001
Discontinued operations	13,029	13,292
Group turnover	292,640	267,293
Profit before taxation		
Fire and Gas	16,621	15,028
Water	5,767	5,517
Elevator and Door Safety	12,102	8,126
Process Safety	6,579	6,753
Resistors	2,218	3,067
Optics and Specialist including holding companies	7,135	7,532
Continuing operations	50,422	46,023
Discontinued operations	(370)	77
Segmental profit	50,052	46,100
Goodwill amortisation and exceptional items	(13,369)	(3,235)
Interest	232	408
Profit on ordinary activities before taxation	36,915	43,273
Net assets		
Fire and Gas	19,578	18,239
Water	14,279	14,747
Elevator and Door Safety	16,130	16,416
Process Safety	10,504	11,176
Resistors	7,347	8,483
Optics and Specialist including holding companies	6,549	14,868
Continuing operations	74,387	83,929
Discontinued operations	–	3,018
	74,387	86,947
Net cash/(debt)	21,548	(93)
Net tangible assets	95,935	86,854
Intangible assets	71,425	76,592
Equity shareholders' funds	167,360	163,446

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.

Notes on the Accounts continued £000

2 Earnings per ordinary share

Earnings per ordinary share on a statutory basis are calculated by dividing the profit for the financial year of £22,322,000 (2003: £28,359,000) by the weighted average of 366,237,803 shares in issue during the year (2003: 365,411,453).

Diluted earnings per ordinary share are calculated using the same earnings as for earnings per ordinary share, divided by 366,686,599 shares (2003: 365,809,420) which includes dilutive potential ordinary shares of 448,796 (2003: 397,967). 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.

Earnings per ordinary share before goodwill amortisation and exceptional items as presented on the Consolidated 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	
	2004	2003	2004 p	2003 p
Earnings	22,322	28,359	6.09	7.76
Add back: goodwill amortisation (after tax)	3,880	2,870	1.07	0.79
exceptional items (after tax)	8,355	–	2.28	–
Earnings before goodwill amortisation and exceptional items	34,557	31,229	9.44	8.55

3 Operating profit

	2004	2003
Operating profit comprises:		
Turnover	292,640	267,293
Cost of sales	(205,118)	(187,006)
Gross profit	87,522	80,287
Distribution costs	(7,545)	(6,725)
Administrative expenses (including goodwill amortisation)	(34,320)	(31,092)
Other operating income	175	395
	45,832	42,865

Included in the above are the following amounts related to discontinued operations: cost of sales £11,679,000 (2003: £11,499,000); gross profit £1,350,000 (2003: £1,793,000); distribution costs £416,000 (2003: £430,000); administrative expenses £1,315,000 (2003: £1,297,000) (including goodwill amortisation £11,000 (2003: £11,000)).

3 Operating profit continued

		2004	2003
Operating profit is arrived at after charging:			
Depreciation		7,879	7,554
Goodwill amortisation		4,220	3,235
Research and development		11,242	9,623
Auditors' remuneration:	Audit services	463	430
	Non-audit services	44	3
Operating lease rents	property	3,138	3,129
	other	300	132

Auditors' remuneration includes £65,000 (2003: £60,000) in respect of the Company.

4 Exceptional items

Exceptional items arose on the sale of the entire share capital of Thames Side-Maywood Limited, Kerry Ultrasonics Limited and S&P Coil Products Limited in March and April 2004.

Of the loss on disposal of £9,149,000, £5,755,000 related to goodwill, of which £5,595,000 had been previously written off directly to reserves on acquisition. Cash of £4,567,000 has been received by 3 April 2004 and, after settlement of costs, the net cash inflow on disposal is expected to be £3,687,000.

5 Employee information

	2004 Number	2003 Number
The average number of persons employed by the Group during the year was:		
United Kingdom	1,788	1,801
Overseas	1,137	992
	2,925	2,793
Group employee costs comprise:	£000	£000
Wages and salaries	68,207	63,334
Social security costs	10,137	8,485
Other pension costs (note 25)	5,095	3,859
	83,439	75,678

6 Directors' remuneration

Details of Directors' remuneration are set out on pages 40 to 45 within the Report on Remuneration and form part of these financial statements.

7 Interest

	2004	2003
Interest receivable on short-term deposits	995	1,220
Interest payable on bank loans and overdrafts	(700)	(717)
Other interest	(63)	(95)
	232	408

Notes on the Accounts continued £000

8 Taxation

			2004	2003
Current tax				
UK corporation tax at 30% (2003: 30%)			7,573	7,114
Overseas taxation			7,434	6,829
Adjustments in respect of prior years			(383)	203
Total current tax			14,624	14,146
Deferred tax				
Origination and reversal of timing differences			(49)	738
Adjustments in respect of prior years			18	30
Total deferred tax (credit)/charge			(31)	768
			14,593	14,914

Reconciliation of effective tax rate on profit on ordinary activities:	Before goodwill amortisation and exceptional items		After goodwill amortisation and exceptional items	
	2004 %	2003 %	2004 %	2003 %
UK corporation tax rate	30.0	30.0	30.0	30.0
Higher tax rates on overseas profits	2.7	3.3	3.5	3.6
Adjustments in respect of prior years	(0.7)	0.5	(1.0)	0.5
Other timing differences	(0.7)	(0.9)	7.0	0.4
Effective tax rate	31.3	32.9	39.5	34.5

9 Ordinary Dividends

	2004 p	2003 p	2004	2003
Interim paid	2.44	2.285	8,945	8,352
Final proposed	3.75	3.527	13,762	12,892
Balance of final dividend	–	–	18	2
	6.19	5.812	22,725	21,246

The accrual for the 2003/04 final dividend takes into account shares issued since 3 April 2004.

10 Reserves

	Share premium account	Capital redemption reserve	Profit and loss account
At 29 March 2003	6,375	185	120,337
Loss transferred from reserves	–	–	(403)
Share options exercised	1,393	–	–
Exchange adjustments	–	–	(2,799)
Goodwill transferred to the Consolidated Profit and Loss Account in respect of businesses sold	–	–	5,595
At 3 April 2004	7,768	185	122,730

Notes on the Accounts continued £000

11 Fixed assets – intangible assets

	Goodwill
Cost	
At 29 March 2003	85,602
Adjustments	(787)
Disposals	(213)
At 3 April 2004	84,602
Amortisation	
At 29 March 2003	9,010
Charge for the year	4,220
Disposals	(53)
At 3 April 2004	13,177
Net book amounts	
At 3 April 2004	71,425
At 29 March 2003	76,592

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

Cumulative goodwill written off against reserves on acquisitions prior to 28 March 1998, net of that attributable to closures and sales, amounts to £70,931,000 (2003: £76,526,000).

12 Fixed assets – tangible assets

	Land and buildings				
Group	Freehold properties	Long leases	Short leases	Plant equipment & vehicles	Total
Cost					
At 29 March 2003	27,503	1,448	2,623	67,090	98,664
Assets of businesses sold	(345)	–	(141)	(3,802)	(4,288)
Additions at cost	717	–	303	8,666	9,686
Disposals	(437)	–	(82)	(5,082)	(5,601)
Exchange adjustments	(1,032)	–	(110)	(2,500)	(3,642)
At 3 April 2004	26,406	1,448	2,593	64,372	94,819
Accumulated depreciation					
At 29 March 2003	4,420	319	1,357	42,685	48,781
Assets of businesses sold	(112)	–	(44)	(2,607)	(2,763)
Charge for the year	543	31	253	7,052	7,879
Disposals	(63)	–	(59)	(4,366)	(4,488)
Exchange adjustments	(162)	–	(55)	(1,512)	(1,729)
At 3 April 2004	4,626	350	1,452	41,252	47,680
Net book amounts					
At 3 April 2004	21,780	1,098	1,141	23,120	47,139
At 29 March 2003	23,083	1,129	1,266	24,405	49,883

Notes on the Accounts continued £000

12 Fixed assets – tangible assets continued

Halma p.l.c.	Land and buildings Freehold properties	Short leases	Plant equipment & vehicles	Total
Cost				
At 29 March 2003	3,778	167	1,012	4,957
Additions at cost	37	–	288	325
Disposals	(772)	–	(116)	(888)
At 3 April 2004	3,043	167	1,184	4,394
Accumulated depreciation				
At 29 March 2003	670	51	573	1,294
Charge for the year	45	6	159	210
Disposals	(172)	–	(74)	(246)
At 3 April 2004	543	57	658	1,258
Net book amounts				
At 3 April 2004	2,500	110	526	3,136
At 29 March 2003	3,108	116	439	3,663

13 Stocks

	2004	2003
Raw materials and consumables	15,337	15,231
Work in progress	6,000	8,024
Finished goods and goods for resale	9,871	11,931
	31,208	35,186

14 Debtors

	Group 2004	Group 2003	Halma p.l.c. 2004	Halma p.l.c. 2003
Falling due within one year:				
Trade debtors	61,772	65,578	–	–
Amounts due from Group companies	–	–	122,857	117,588
Prepayments and accrued income	3,603	3,979	1,096	1,259
Other debtors	1,705	3,519	89	1,136
	67,080	73,076	124,042	119,983

Notes on the Accounts continued £000

15 Borrowings

	Group 2004	Group 2003	Halma p.l.c. 2004	Halma p.l.c. 2003
Falling due within one year:				
Unsecured bank loans and overdrafts	26,934	26,584	26,758	26,423
Other unsecured loans	–	1,083	–	1,083
	26,934	27,667	26,758	27,506

16 Creditors

	Group 2004	Group 2003	Halma p.l.c. 2004	Halma p.l.c. 2003
Trade creditors	26,971	28,878	428	375
Other taxation and social security	3,574	3,842	1,208	1,197
Amounts owing to Group companies	–	–	15,163	13,609
Accruals and deferred income	9,089	8,778	1,813	1,144
Other creditors	4,760	4,592	2,764	759
	44,394	46,090	21,376	17,084

17 Creditors: amounts falling due after one year

	Group 2004	Group 2003	Halma p.l.c. 2004	Halma p.l.c. 2003
Deferred purchase consideration	159	1,665	62	143
Other creditors	1,095	–	1,095	–
	1,254	1,665	1,157	143

18 Provisions for liabilities and charges

	Group 2004	Group 2003	Halma p.l.c. 2004	Halma p.l.c. 2003
Deferred taxation	6,067	5,265	294	534

Analysis of Group deferred tax provided is as follows:

	2004	2003
Accelerated capital allowances	3,098	3,186
Short-term timing differences	(2,468)	(2,223)
Goodwill timing differences	5,437	4,302
Net deferred tax liability	6,067	5,265

Notes on the Accounts continued £000

18 Provisions for liabilities and charges continued

Movement in deferred tax liability

	Group	Halma p.l.c.
At 29 March 2003	5,265	534
Charge/(credit) to profit and loss account:		
UK	(821)	(240)
Overseas	790	–
Disposals	(55)	–
Exchange adjustments	888	–
At 3 April 2004	6,067	294

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.

19 Called up share capital

	Authorised 2004	Authorised 2003	Issued and fully paid 2004	Issued and fully paid 2003
Ordinary shares of 10p each	43,656	43,656	36,677	36,549

The number of ordinary shares in issue at 3 April 2004 was 366,773,945.

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

	Issued and fully paid
At 29 March 2003	36,549
Share options exercised	128
At 3 April 2004	36,677

The total consideration received in respect of share options exercised amounted to £1,521,000.

Options in respect of 1,136,639 ordinary shares remained outstanding at 3 April 2004 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
307,903	122.63p – 130.52p		1997
185,598	111.75p – 126p		1998
52,665	138p – 144.76p		1999
122,200	122.5p – 126.5p		2000
22,200	101.5p – 116.5p		2001
91,600	120p – 137p		2002
167,013	104.24p – 124.88p	1999	
178,794	111.75p – 126p	2000	
3,866	138.02p	2001	
4,800	120p	2004	

Notes on the Accounts continued £000

19 Called up share capital continued

Options in respect of 4,348,758 ordinary shares remained outstanding at 3 April 2004 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
341,594	138p – 144.75p		1999
767,600	122.5p – 138.5p		2000
331,600	101.5p – 123.5p		2001
1,025,800	120p – 137p		2002
302,264	138p – 144.75p	2001	
394,200	122.5p – 137p	2002	
394,500	101.5p – 123.5p	2003	
791,200	120p – 136p	2004	

Options in respect of 11,094,816 ordinary shares remained outstanding at 3 April 2004 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
2,035,900	111p		2003
1,205,000	163.5p		2004
1,801,170	132p – 144.33p		2005
2,474,804	134p		2006
906,900	111p	2005	
688,600	163.5p	2006	
963,671	144.33p	2007	
1,018,771	134p	2008	

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 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.

Notes on the Accounts continued £000

20 Investments

Shares in Group companies	2004	2003
At cost less amounts written off at 29 March 2003	42,760	40,119
Additions	–	2,641
Disposals	(1,801)	–
At cost less amounts written off at 3 April 2004	40,959	42,760

The disposals relate to the sale of the whole of the issued share capital of Kerry Ultrasonics Limited, Thames Side-Maywood Limited and S&P Coil Products Limited, all of which were 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
Diba Industries, Inc.†	USA
*Electronic Micro Systems Inc.	USA
*IPC Power Resistors Inc.	USA
*Janus Elevator Products Inc.	USA
*Marathon Sensors Inc.	USA
*Monitor Controls Inc.	USA
*Mosebach Manufacturing Company	USA
*Ocean Optics, Inc.†	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.
†Acquired since year end.

Notes on the Accounts continued £000

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:

	2004	2003
At 29 March 2003	77,733	82,041
Profit after taxation	34,094	18,152
Dividends	(22,725)	(21,246)
Exchange adjustments	2,330	(1,214)
At 3 April 2004	91,432	77,733

22 Consolidated cash flow statement

	2004	2003
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	45,832	42,865
Depreciation	7,879	7,554
Goodwill amortisation	4,220	3,235
Loss/(profit) on sale of tangible fixed assets	109	(155)
Decrease/(increase) in SSAP 24 pension prepayment	112	(916)
Property sale receivable	1,100	(1,100)
Decrease in stocks	744	3,288
(Increase)/decrease in debtors	(1,404)	122
Increase in creditors	1,190	5,416
Net cash inflow from operating activities	59,782	60,309

Included in the Consolidated Cash Flow Statement are the following amounts related to discontinued operations: net cash inflow from operating activities £270,000 (2003: £1,073,000); net interest paid £49,000 (2003: £17,000 received); taxation paid £79,000 (2003: £248,000); net capital expenditure £287,000 (2003: £378,000).

The cash outflow of £2,947,000 on the acquisition of businesses relates to the payment of deferred purchase consideration which arose from acquisitions made in earlier years, and where provision was made in prior years' financial statements.

	2004	2003
Reconciliation of net cash flow to movement in net cash/(debt)		
Increase in cash	1,535	3,099
Increase/(decrease) in liquid resources	19,662	(20,064)
Loan notes issued	–	(1,083)
Cash inflow from loans	(2,683)	(13,399)
Exchange adjustments	3,127	744
	21,641	(30,703)
Net (debt)/cash brought forward	(93)	30,610
Net cash/(debt) carried forward	21,548	(93)

Notes on the Accounts continued £000

22 Consolidated cash flow statement continued

	At 29 March 2003	Cash flow	Other non-cash changes	Exchange adjustments	At 3 April 2004
Analysis of net cash/(debt):					
Cash	13,265	1,639	–	(320)	14,584
Overdrafts	(162)	(104)	–	8	(258)
		1,535			
Short-term deposits	14,309	19,662	–	(73)	33,898
Bank loans	(26,422)	(3,766)	–	3,512	(26,676)
Other unsecured loans	(1,083)	1,083	–	–	–
	(93)	18,514	–	3,127	21,548

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 loan facilities and have fixed interest rates with maturities of not more than one year.

Notes on the Accounts continued £000

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 renewed 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. They 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:

2004	Net foreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling	US Dollar	Euro	Other	Total
Sterling	–	747	1,850	(115)	2,482
US Dollar	5	–	(3)	–	2
Euro	(79)	1,509	–	77	1,507
Other	79	1,249	13	(2)	1,339
Total	5	3,505	1,860	(40)	5,330

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
Total	104	2,809	2,613	239	5,765

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 comprise cash deposits which totalled £33,898,000 at 3 April 2004 (2003: £14,309,000). These comprised Sterling denominated deposits of £32,531,000 (2003: £14,022,000), US Dollar denominated deposits of £nil (2003: £58,000), Euro and other currency deposits of £1,367,000 (2003: £229,000) 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 £26,934,000 at 3 April 2004 (2003: £27,667,000). All are subject to floating rates of interest. These comprise US Dollar denominated bank loans of £20,218,000 (2003: £19,745,000) which bear interest with reference to the US Dollar LIBOR rates, US Dollar denominated bank overdrafts of £76,000 (2003: £152,000) which bear interest at rates referenced to US Dollar base rates, Euro denominated bank loans of £6,458,000 (2003: £6,678,000) which bear interest with reference to the Euro LIBOR rates, Euro denominated bank overdrafts of £142,000 (2003: £nil) which bear interest at rates referenced to Euro base rates and Sterling denominated bank overdrafts of £40,000 (2003: £9,000) and Sterling loan notes of £nil (2003: £1,083,000) which bear interest at rates referenced to UK base rates.

Maturity of financial liabilities

With the exception of the deferred purchase consideration and other creditors 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 £44,000 (2003: £1,492,000) due between one and two years, with the balance of £115,000 (2003: £173,000) due between two and five years. Other creditors due after more than one year include £105,000 (2003: £nil) due between one and two years, £379,000 (2003: £nil) due between two and five years, with the balance of £611,000 (2003: £nil) due after more than 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 3 April 2004 committed facilities of this type amounted to £57,219,000 of which £26,676,000 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 3 April 2004 there was no significant difference between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

Hedging

As explained above, the Group's policy is to hedge significant sales and 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 3 April 2004 and 29 March 2003 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 3 April 2004 but not provided in these accounts amounts to £523,000 (2003: £2,101,000).

Notes on the Accounts continued £000

24 Commitments continued

Commitments under operating leases

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

	Land and buildings		Other	
	2004	2003	2004	2003
Within one year	352	380	39	44
Within two to five years	1,482	1,594	193	254
After five years	930	1,229	8	–
	2,764	3,203	240	298

Total annual commitments under non-cancellable operating leases amount to £3,004,000 (2003: £3,501,000).

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 previous 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 £5,095,000 (2003: £3,859,000) of which £812,000 (2003: £757,000) 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 third year transitional disclosures are required.

Notes on the Accounts continued £000

25 Pensions continued

The financial assumptions used to calculate scheme liabilities at 3 April 2004 under FRS 17 are:

	2004	2003	2002
Rate of increase in salaries	4.25%	4.00%	4.25%
Rate of increase in pensions in payment (pre April 1997)	2.75%	3.00%	3.00%
Rate of increase of pensions in payment (post April 1997)	2.75%	2.50%	2.75%
Discount rate	5.50%	5.50%	6.00%
Inflation assumption	2.75%	2.50%	2.75%

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

	Expected rate of return 2004	Market value 2004	Expected rate of return 2003	Market value 2003	Expected rate of return 2002	Market value 2002
Equities	7.75%	51,323	7.50%	37,301	8.25%	45,407
Bonds	4.75%	8,349	4.50%	7,569	5.25%	8,128
Property	6.25%	1,755	6.00%	1,704	6.75%	1,609
Total market value of assets		61,427		46,574		55,144
Present value of scheme liabilities		(102,196)		(90,545)		(67,705)
Deficit in schemes		(40,769)		(43,971)		(12,561)
Related deferred tax asset		12,231		13,191		3,768
		(28,538)		(30,780)		(8,793)

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

	2004	2003
Current service cost	3,160	2,924
Curtailment gain	(979)	–
Total operating charge	2,181	2,924

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

	2004	2003
Expected return on pension scheme assets	3,377	4,438
Interest on scheme liabilities	(5,032)	(4,153)
Net finance (cost)/income	(1,655)	285

Notes on the Accounts continued £000

25 Pensions continued

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

	2004	2003
Actual return less expected return on scheme assets	7,717	(17,042)
Experience losses arising on scheme liabilities	–	(3,260)
Changes in assumptions	(4,731)	(12,427)
Net gain/(loss) recognised	2,986	(32,729)

Movement in deficit during the year:

	2004	2003
Deficit at beginning of year	(43,971)	(12,561)
Current service cost	(3,160)	(2,924)
Contributions paid	4,052	3,958
Curtailment gain	979	–
Net finance (cost)/income	(1,655)	285
Actuarial gain/(loss)	2,986	(32,729)
Deficit at end of year	(40,769)	(43,971)

History of experience gains/(losses):

	2004	2003
Difference between expected and actual return on scheme	7,717	(17,042)
Percentage of scheme assets	13%	(37)%
Experience losses on scheme liabilities	–	(3,260)
Percentage of scheme liabilities	–%	(4)%
Total actuarial gain/(loss) recognised in the statement of total recognised gains and losses	2,986	(32,729)
Percentage of scheme liabilities	3%	(36)%

Notes on the Accounts continued £000

25 Pensions continued

If the above amount were recognised in the Accounts, the Group's net assets and profit and loss account reserve would be as follows:

	2004	2003
Net assets excluding pension liability	167,360	163,446
SSAP 24 pension prepayment	(930)	(1,042)
SSAP 24 accrual in respect of discontinued operations	1,557	–
Pension liability	(28,538)	(30,780)
Net assets including pension liability	139,449	131,624
Profit and loss account reserve excluding pension liability	122,730	120,337
SSAP 24 pension prepayment	(930)	(1,042)
SSAP 24 accrual in respect of discontinued operations	1,557	–
Pension liability	(28,538)	(30,780)
Profit and loss account reserve including pension liability	94,819	88,515

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

Notice of Meeting

Notice is hereby given that the one hundred and tenth Annual General Meeting of Halma p.l.c. will be held at The Ballroom, The Berkeley Hotel, Wilton Place, London SW1X 7RL on Wednesday, 4 August 2004 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 53 weeks to 3 April 2004.

2 To declare a dividend on the ordinary shares.

3 To re-elect as a Director Mr R A Stone* 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 Roy who retires from the Board by rotation and being eligible offers himself for re-election.

5 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.

6 To re-elect as a Director Mr S R Pettit** who was appointed in September 2003 and who retires in accordance with the Articles of Association.

7 To re-appoint Deloitte & Touche LLP as Auditors.

8 To authorise the Directors to determine the remuneration of the Auditors.

Special business

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

9 That the Report on Remuneration as set out on pages 40 to 45 of the Report and Accounts for the 53 weeks to 3 April 2004 be approved.

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

10 That the draft Articles of Association as set out in the document produced to the meeting and, for the purposes of identification, signed by the Chairman, be and are hereby adopted as the new Articles of Association of the Company.

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 £1,835,000,

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 personalised 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
5 July 2004

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 4 August 2004 and at The Berkeley Hotel from 11:45 am on the day of the meeting until the close of the meeting.

In addition, in accordance with the Listing Rules, copies of the draft Articles of Association referred to in resolution 10 are available for inspection at the offices of CMS Cameron McKenna, Mitre House, 160 Aldersgate Street, London EC1A 4DD from the date of the above notice until the close of the meeting and will also be available for inspection at the Berkeley Hotel 15 minutes prior to and during 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 Remuneration and Audit Committees of the Board

HALMA

Summary 1995 to 2004

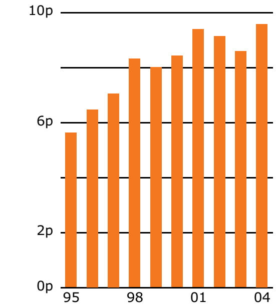
	94/95	95/96	96/97	97/98	98/99	99/00
Turnover	153,739	173,652	200,140	213,777	217,758	233,485
Overseas sales	90,045	104,432	119,235	126,863	134,189	150,727
Profit before taxation, goodwill amortisation and exceptional items	29,234	33,619	37,076	42,391	41,823	43,751
Net tangible assets	63,833	77,650	81,209	98,249	102,101	89,755
Borrowings	7,096	8,350	3,763	2,784	7,730	14,700
Cash and short-term deposits	19,759	27,459	13,447	22,639	29,894	21,900
Employees	2,226	2,384	2,677	2,861	2,827	2,975
Earnings per ordinary share (Note 1)	5.59p	6.44p	7.01p	6.87p	7.91p	6.08p
Earnings per ordinary share before goodwill amortisation and exceptional items (Note 1)	5.59p	6.44p	7.01p	8.26p	7.99p	8.41p
Year on year increase/(decrease) in earnings per ordinary share before goodwill amortisation and exceptional items	16.7%	15.2%	8.9%	17.8%	(3.3)%	5.3%
Net tangible assets per ordinary share (Note 1)	17.9p	21.7p	22.5p	27.1p	28.2p	24.9p
Year on year increase/(decrease) in net tangible assets per ordinary share	14.7%	21.2%	3.7%	20.4%	4.1%	(11.7%)
Return on sales (Note 2)	19.0%	19.4%	18.5%	19.8%	19.2%	18.7%
Return on capital employed (Note 3)	45.8%	43.3%	45.7%	43.1%	41.0%	48.7%
Year on year increase in dividends per ordinary share	20%	20%	20%	20%	20%	20%
Ordinary share price at financial year end (Note 1)	113p	138p	134p	124p	92p	95p
Market capitalisation at financial year end	£401.5m	£492.1m	£479.2m	£447.3m	£330.6m	£340.1m

Notes:
1. Restated for the capitalisation issues made in 1995 and 1997.
2. Return on sales is defined as profit before taxation, goodwill amortisation and exceptional items as a % of turnover.
3. Return on capital employed is defined as profit before taxation, goodwill amortisation and exceptional items expressed as a % of net tangible assets (being equity shareholders' funds less intangible assets).
4. Figures prior to 2000/01 have not been restated for the adoption of FRS 19.

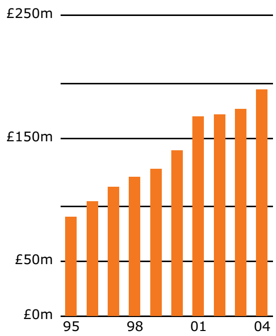
£000

00/01	01/02	02/03	03/04
268,322	267,597	267,293	292,640
181,831	183,259	188,161	206,102
49,698	48,255	46,508	50,284
99,991	117,515	86,854	95,935
7,758	15,047	27,667	26,934
21,484	45,657	27,574	48,482
3,059	2,859	2,793	2,925
8.91p	8.58p	7.76p	6.09p
9.34p	9.10p	8.55p	9.44p
11.1%	(2.6%)	(6.0%)	10.4%
27.7p	32.2p	23.8p	26.2p
11.2%	16.2%	(26.1%)	10.1%
18.5%	18.0%	17.4%	17.2%
49.7%	41.1%	53.5%	52.4%
15%	15%	10%	7%
129p	164p	114p	149p
£465.7m	£598.2m	£416.7m	£546.5m

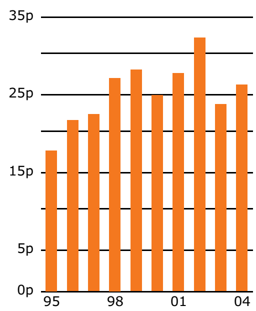
Earnings per share
(before goodwill amortisation and exceptional items)



Overseas sales



Net tangible assets per share



HALMA

	Main products
Air Products and Controls Inc.	Duct detectors and control relays for smoke control systems
Apollo Fire Detectors Limited	Smoke and heat detectors for commercial fire alarm systems
Apollo Gesellschaft für Meldetechnologie mbH	Smoke and heat detectors for commercial fire alarm systems
Aquionics Inc.	Ultraviolet light equipment for water sterilisation
B.E.A. Inc.	Sensors for automatic doors
Berson Milieutechniek B.V.	Ultraviolet light equipment for treating waste water and process water used in the manufacture of food and drinks
Bio-Chem Valve Inc.	Miniature valves, micro pumps and fluid components for medical, life science and 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
Diba Industries, Inc.	Specialist components and complete fluid transfer subassemblies for medical, life science and scientific instruments
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 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
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
Ocean Optics, Inc.	Miniature fibre optic spectrometers for consumer electronics, process control, environmental monitoring, life sciences and medical diagnostics
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
Post Glover Lifelink	Electrical isolation panels and electrical raceways for hospital, laboratory and industrial facilities
Radcom (Technologies) Limited	Instrumentation for recording data, and detecting and controlling leakage, in water distribution pipelines
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	Process safety systems for petrochemical and industrial applications
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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