

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