

HALMA

Interim Report 2003



	Change	2003	2002
		£m	£m
Turnover	+19%	146.9	123.8
Overseas sales	+20%	103.5	86.1
Profit before taxation*	+15%	24.4	21.2
Earnings per share**	+16%	4.53p	3.91p
Dividend per share	+7%	2.44p	2.285p
Profit before taxation* as a percentage of turnover		16.6%	17.1%
Return on capital employed***		50.2%	34.9%

* Before goodwill amortisation of £2,116,000 (2002: £1,138,000)
** Before goodwill amortisation of 0.53p (2002: 0.27p) per share. Earnings per share figures are shown on the Consolidated Profit and Loss Account
***Return on capital employed is defined as the annualised profit before taxation* expressed as a % of net tangible assets

Highlights

- 15% growth in profit before taxation* reflects good worldwide performance
- Continued high levels of return on investment and cash generation
- Organic growth plus BEA contribution produces 19% sales growth
- Increased investment in R&D leads to improved market shares and enhanced product offering
- Progressive dividend policy maintained with 7% growth

Results

I am delighted to report that the Group performed well in the first half of this financial year restoring organic growth despite no discernible improvement in market conditions.

Profit before tax was up by 15% at £24.4 million and earnings per share increased by 16% to 4.53 pence. Both figures are before goodwill amortisation*. Turnover increased by 19% to £146.9 million and overseas sales increased by 20% representing 70% of our turnover. The Group benefited from a full six months' contribution from BEA, which performed according to our expectations.

Return on capital employed was strong at 50%, allowing us to continue to self-fund organic growth, acquisition activity and rising dividends.

Dividends

In line with our progressive dividend policy, the interim dividend will amount to 2.44 pence per share, an increase of 7%, and will be paid on 9 February 2004 to shareholders on the register at the close of business on 9 January 2004.

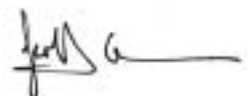
Board Changes

I am pleased to announce that Stephen Pettit has joined our Board as a non-executive Director; his extensive experience of many international markets will strengthen the Board.

Prospects

We are still waiting to see any signs of improvement in market conditions, likely to be led by positive stirrings which we expect will arise first in our largest single market – the USA.

Meanwhile, we continue to concentrate on those factors which are clearly under our control: costs, people development, sales effectiveness and continuous innovation. These are all actions which will build strength for the medium term.



9 December 2003

Geoff Unwin

* See Consolidated Profit and Loss Account

Summary

Over the past six months, our businesses have succeeded in growing both organically and through the contribution of acquisitions. Despite no overall improvement in market conditions, our continued investment in new products, equipment and people has helped us to grow sales, increase profits to a new record and maintain our strong net cash position.

Organic and acquisition growth created worldwide

Our success in achieving organic growth in static markets is primarily a result of three factors: increased market shares, making products of higher value to our customers and geographical expansion. Sales were driven up in the UK, mainland Europe, Far East and Australasia and exports to the Near and Middle East also increased. This resulted in record sales of £147 million, an increase of £23 million. Of this figure, around £17 million of sales can be attributed to acquisitions while organic growth accounted for approximately £6 million.

It is now a year since we acquired BEA, the automatic door sensor company. It is living up fully to our expectations. There have also been some spin-off benefits to other companies in the Group from cross-selling BEA products and transferring management processes.

Market positions strengthened

In addition to benefiting from the BEA acquisition, our Elevator and Door Safety sector achieved an encouraging level of organic growth and now accounts for 22% of total Group sales. Our Process Safety sector is making steady progress. Of our six sectors, only Resistors did not increase sales. We have made it clear in the past that in order to reach former record profit levels in this sector, we will need to see improved conditions within US industrial markets. This has yet to occur, so our efforts are continuing, with some success, to increase sales to other territories and to new customers. New products have been important in each sector but particularly in Fire and Gas, Water and in our Optics and Specialist sectors. We have introduced a new range of fire detectors, a novel UV water steriliser and sterilisable lenses to aid eye surgery, amongst a wide variety of new products. International third party approvals and other product launch costs have been fully funded within the period, as have increased pension, payroll tax and insurance costs.

Research & Development successes

Over the years, we have developed strong positions in carefully selected safety-related markets that are largely resilient to economic disturbance. This has been one factor in our success, but of even greater significance is the effectiveness of our stream of new products. Our record investment in R&D, combined with much hard work by our businesses to identify new opportunities across the world, is yielding visible results. Product innovation is deeply rooted in our culture, as reflected in our high R&D spend which has increased to £6 million, 4% of turnover. We see this as a major growth engine for the Group going forward.

Outlook

We are encouraged by our progress in the first half and, provided business levels remain stable, the outlook for the year is in line with the Board's expectations. Our strategy remains firmly focused on delivering value today while building a secure foundation of strong market positions.

We recognise that growth in the short term will be determined by our own efforts, with little prospect of an imminent improvement in market conditions. There is therefore a focus on good management of our businesses and a continued commitment to innovation.



9 December 2003

Stephen R O'Shea

Consolidated Profit and Loss Account

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	Notes	Unaudited 27 weeks to 4 October 2003		Unaudited 26 weeks to 28 September 2002	Audited 52 weeks to 29 March 2003
		Before goodwill amortisation	Goodwill amortisation	Total	
Turnover		146,900	–	146,900	123,846
Operating profit before goodwill amortisation		24,434	–	24,434	20,723
Goodwill amortisation	2	–	(2,116)	(2,116)	(1,138)
Operating profit		24,434	(2,116)	22,318	19,585
Interest		15	–	15	496
Profit on ordinary activities before taxation		24,449	(2,116)	22,333	20,081
Taxation	3	(7,876)	165	(7,711)	(6,769)
Profit for the financial period		16,573	(1,951)	14,622	13,312
Dividends					
Ordinary dividends				(8,963)	(8,355)
Profit transferred to reserves				5,659	4,957
Ordinary dividend per share				2.44p	2.285p
Earnings per ordinary share before goodwill amortisation				4.53p	3.91p
Earnings per ordinary share				4.00p	3.64p
Diluted earnings per ordinary share				3.99p	3.63p

	Notes	Unaudited 4 October 2003	Unaudited 28 September 2002	Audited 29 March 2003
Fixed assets				
Intangible assets	2	73,996	38,837	76,592
Tangible assets		50,267	42,833	49,883
		<u>124,263</u>	<u>81,670</u>	<u>126,475</u>
Current assets				
Stocks		36,947	31,872	35,186
Debtors		64,913	62,580	73,076
Short-term deposits		22,417	42,207	14,309
Cash at bank and in hand		16,244	10,246	13,265
		<u>140,521</u>	<u>146,905</u>	<u>135,836</u>
Creditors: amounts falling due within one year				
Borrowings		29,485	15,524	27,667
Creditors		43,217	32,054	46,090
Current taxation		6,923	6,779	5,286
Dividends payable		8,945	8,353	12,892
		<u>88,570</u>	<u>62,710</u>	<u>91,935</u>
Net current assets		<u>51,951</u>	<u>84,195</u>	<u>43,901</u>
Total assets less current liabilities		<u>176,214</u>	<u>165,865</u>	<u>170,376</u>
Creditors: amounts falling due after one year		496	488	1,665
Provisions for liabilities and charges		6,150	4,990	5,265
		<u>169,568</u>	<u>160,387</u>	<u>163,446</u>
Capital and reserves				
Called up share capital		36,659	36,545	36,549
Share premium account		7,558	6,336	6,375
Other reserves		185	185	185
Profit and loss account		125,166	117,321	120,337
Equity shareholders' funds	4	<u>169,568</u>	<u>160,387</u>	<u>163,446</u>

Consolidated Cash Flow Statement

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	Notes	Unaudited 27 weeks to 4 October 2003	Unaudited 26 weeks to 28 September 2002	Audited 52 weeks to 29 March 2003
Cash flow from operating activities	5	31,779	27,450	60,309
Return on investments and servicing of finance				
Interest received		407	876	1,280
Interest paid		(410)	(298)	(622)
		(3)	578	658
Taxation				
Current taxation paid		(5,575)	(6,544)	(15,498)
Capital expenditure				
Purchase of tangible fixed assets		(5,856)	(3,733)	(11,257)
Sale of tangible fixed assets		731	253	1,872
		(5,125)	(3,480)	(9,385)
Acquisitions and disposals				
Acquisition of businesses		(1,478)	(25)	(49,857)
Cash and overdrafts acquired		-	-	2,655
		(1,478)	(25)	(47,202)
Equity dividends paid		(12,910)	(11,714)	(20,066)
		6,688	6,265	(31,184)
Management of liquid resources				
(Increase)/decrease in short-term deposits		(8,114)	(7,856)	20,064
Financing				
Issue of ordinary share capital		1,293	777	820
Increase in loans		2,683	-	13,399
		3,976	777	14,219
Increase/(decrease) in cash	5	2,550	(814)	3,099

Geographical analysis

	By destination		By origin	
	Unaudited 27 weeks to 4 October 2003	Unaudited 26 weeks to 28 September 2002	Unaudited 27 weeks to 4 October 2003	Unaudited 26 weeks to 28 September 2002
Turnover				
United Kingdom	43,381	37,748	85,730	78,265
United States of America	44,326	38,783	45,298	39,717
Europe excluding UK	35,377	26,281	22,205	9,585
Far East and Australasia	14,132	12,608	7,336	4,149
Africa, Near and Middle East	4,973	4,277	-	-
Other	4,711	4,149	1,420	1,556
Inter-segmental sales	-	-	(15,089)	(9,426)
	<u>146,900</u>	<u>123,846</u>	<u>146,900</u>	<u>123,846</u>
Profit before taxation				
United Kingdom			12,531	11,960
United States of America			7,045	6,477
Other countries			4,858	2,286
			<u>24,434</u>	<u>20,723</u>
Goodwill amortisation			(2,116)	(1,138)
Interest			15	496
Profit on ordinary activities before taxation			<u>22,333</u>	<u>20,081</u>

Sector analysis

	Unaudited 27 weeks to 4 October 2003	Unaudited 26 weeks to 28 September 2002
Turnover		
Fire and Gas	37,008	33,049
Water	17,129	15,842
Elevator and Door Safety	32,785	16,022
Process Safety	18,064	17,352
Resistors	14,097	14,363
Optics and Specialist	28,370	27,547
Inter-segmental sales	(553)	(329)
	<u>146,900</u>	<u>123,846</u>

1 Basis of preparation

The interim report for the 27 weeks to 4 October 2003 is prepared on the basis of the accounting policies set out in the accounts for the 52 weeks to 29 March 2003.

The figures shown for the 52 weeks to 29 March 2003 are an abridged version of the Group's statutory accounts for that period, which received an unqualified audit report and have been filed with the Registrar of Companies.

2 Intangible assets

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

3 Taxation

The tax charge for the 27 weeks to 4 October 2003 of £7,711,000 (2002: £6,769,000) comprises a current taxation charge of £7,224,000 (2002: £6,464,000) and a deferred tax charge of £487,000 (2002: £305,000). The current taxation charge is based on the estimated effective tax rate for the year.

The tax charge includes £4,159,000 (2002: £2,665,000) in respect of overseas tax.

4 Reconciliation of equity shareholders' funds

	Unaudited 27 weeks to 4 October 2003	Unaudited 26 weeks to 28 September 2002	Audited 52 weeks to 29 March 2003
Equity shareholders' funds brought forward	163,446	157,557	157,557
Profit transferred to reserves	5,659	4,957	7,113
Net proceeds of shares issued	1,293	777	820
Exchange adjustments	(830)	(2,904)	(2,044)
Equity shareholders' funds carried forward	<u>169,568</u>	<u>160,387</u>	<u>163,446</u>

5 Notes on cash flow statement

	Unaudited 27 weeks to 4 October 2003	Unaudited 26 weeks to 28 September 2002	Audited 52 weeks to 29 March 2003
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit	22,318	19,585	42,865
Depreciation	4,105	3,592	7,554
Goodwill amortisation	2,116	1,138	3,235
Loss/(profit) on sale of tangible fixed assets	74	125	(155)
Decrease/(increase) in SSAP 24 pension prepayment	62	(591)	(916)
Property sale receivable	1,100	–	(1,100)
(Increase)/decrease in stocks	(2,310)	2,444	3,288
Decrease in debtors	6,113	4,383	122
(Decrease)/increase in creditors	(1,799)	(3,226)	5,416
Net cash inflow from operating activities	<u>31,779</u>	<u>27,450</u>	<u>60,309</u>
Reconciliation of net cash flow to movement in net cash/(debt)			
Increase/(decrease) in cash	2,550	(814)	3,099
Increase/(decrease) in liquid resources	8,114	7,856	(20,064)
Loan notes issued	–	(1,083)	(1,083)
Cash inflow from loans	(2,683)	–	(13,399)
Exchange adjustments	1,288	360	744
	<u>9,269</u>	<u>6,319</u>	<u>(30,703)</u>
Net (debt)/cash brought forward	(93)	30,610	30,610
Net cash/(debt) carried forward	<u>9,176</u>	<u>36,929</u>	<u>(93)</u>

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 and Security*
Kevin J Thompson *Group Finance Director*
John S Campbell *Resistors*
Keith J Roy *Water and Gas Technology*
William J Seymour *Elevator and Door Safety*
Andrew J Williams *Optics and Water Instrumentation*
Adam J Meyers *Fluid Technology*
Nigel J B Trodd *Process Safety*

Registered Office

Misbourne Court Rectory Way
Amersham Bucks HP7 0DE
Telephone: +44 (0)1494 721 111
Fax: +44 (0)1494 728 032
Website: www.halma.com

Registered Number

40932

Auditors

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

Bankers

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

Financial Advisers

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

**Brokers and Joint
Financial Advisers**

Dresdner Kleinwort Wasserstein Limited
20 Fenchurch Street
London EC2P 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 p.l.c.

Misbourne Court

Rectory Way

Amersham

Bucks HP7 0DE

Tel: +44 (0) 1494 721111

Fax: +44 (0) 1494 728032

www.halma.com