

## Group Chief Executive's Statement

for the year ended 31 March 2008

### Highlights:

- ! Group revenues increased to £5.08m from £4.59m
- ! Profit from continuing operations maintained and disposal of loss-making subsidiary helped profit for financial year increase from £462,000 to £521,000
- ! Borrowings reduced by £280,000
- ! Net Group assets rise to £4.89m from £4.52m
- ! Basic earnings per share (net of discontinued operations) reduced from 4.70p to 4.48p due to full effect of dilution
- ! Proposed dividend raised to 0.85p per Ordinary Share (2007: 0.80p)
- ! One subsidiary acquired and two further acquisitions in pipe-line

I am pleased to present my review of how the Group has performed financially over the year, and to outline some of the activities that have taken place. In addition, I look forward to our prospects and opportunities for the year ahead.

Although it was disappointing that we were ultimately unable to conclude our planned acquisition of a water treatment business due to the seller withdrawing from the transaction, we did successfully complete the purchase of In House the Hygiene Management Company Limited (In House) on 30 November 2007. Thus the Group presently consists of the parent company along with five active subsidiaries. It is expected that this number will increase in the current year. Reference to the In House transaction and other planned additions is made in the section headed "Recent and Proposed Acquisitions" below.

As a result of being unable to proceed with the acquisition opportunity mentioned above, a higher than anticipated level of cash was held throughout the period. This cash arose from the £1m placing that occurred in March 2007. In addition, given that the company is cash-generative, a decision was made to reduce borrowings. In consequence, bank loans secured against Group-owned properties had reduced from around £370,000 at the start of the year to around £90,000 at the year end.

In line with the Board's stated policy of buying back shares where the price is attractive and where cash flow allows, a total of 136,277 ordinary shares were purchased during the year and subsequently cancelled. This included the remaining holding of 86,277 shares originally issued to the seller as part of the consideration for RSA Environmental Health Limited (RSA) in 2004.

In last year's statement I reported that we had purchased additional premises for Adamson's Laboratory Service Limited (ALS) at Raunds in Northamptonshire, adjacent to the existing offices leased by RSA. We have now agreed to acquire the virtual freehold of the RSA premises

themselves for a fee of £73,500 and that purchase is currently in progress. This will be funded from existing cash resources.

#### Recent and Proposed Acquisitions

The Group acquired In House the Hygiene Management Company Limited (In House) on 30 November 2007 for an initial consideration of £200,000 paid for out of existing cash resources. Further payments of £50,000 become due on each of the first and second anniversaries. Both anniversary payments are subject to an uplift equal to 50% of any pre-tax profit that exceeds £100,000 in the preceding year. In House is a well-respected and established food safety and hygiene consultancy, with hospitals, schools and hotels among its client base. The company also offers general health and safety consultancy and training. Please refer to the section of my report headed Performance by Trading Subsidiaries for information on post-acquisition performance.

Since the year end, Heads of Terms have been signed for the acquisition of two companies that will each bring significant new benefits and opportunities to the Group. Both proposed transactions are subject to a due diligence process currently in progress. Details of the intended acquisitions are outlined below.

The first company is an independent specialist in the examination and certification of plant and equipment, offering an inspection service for all statutory and non-statutory requirements throughout the UK. Originally formed in 1992, the company derives much of its work from a network of insurance brokers and enjoys a high level of repeat business. The agreed price is £180,000 payable in cash on completion, plus assets at book value. An additional £25,000 becomes due on the first anniversary subject to pre-tax profits of not less than £60,000 accruing in the period. In the last financial year, the company recorded pre-tax profits of £40,000 on revenues of £221,000.

The second company was originally formed in 1989 and provides specialist scientific, process and engineering services to the water industry. Projects are undertaken in the potable water, waste water, fresh water and marine water environments. The business is ideally placed to benefit from increasing regulatory attention being paid to the sector. In particular, the company assists clients to meet EU-driven environmental legislation, and the Asset Maintenance Planning (AMP) programmes that water companies must agree with Ofwat, the regulatory body. The purchase price has been agreed at £500,000 inclusive of net assets of approximately £335,000. An initial sum of £350,000 becomes payable on completion, £100,000 six-months thereafter, and the balance on the first anniversary of completion. All these payments will be made from currently existing cash resources. Management accounts for the nine-months to end of March 2008 indicate that the company had revenues of £316,000 for that period and pre-tax profits of £124,000 before director's earnings.

#### Corporate Structure

In addition to myself, Nicola Coote is an executive director. There are two non-executive directors on the Board: Mike Miller, who chairs the Audit Committee, and Graham Webb MBE who chairs the Remuneration Committee.

A Chartered Secretary, Lorraine Young, supports the Board and its committees. The corporate resource is strengthened by the presence of our Group Accountant, Candy Wilton.

#### Performance by Trading Subsidiaries

Profit figures below are stated before tax and Group management charges. Note that several general health and safety training and consultancy assignments carried out by particular trading subsidiaries will have been invoiced by other Group companies as in previous years, thus it is inappropriate to make direct performance comparisons at subsidiary company level. Reference should be made to the Group's overall performance.

Personnel Health and Safety Consultants Limited  
Sales of £1.05 million, yielding a profit of £561,000.

In the previous year there were sales of £1.12 million and a profit of £528,000.

RSA Environmental Health Limited  
Sales of £971,000, yielding a profit of £70,000.

In the previous year there were sales of £966,000 and a profit of £68,000.

Adamson's Laboratory Services Limited  
Sales of £2.73m yielding a profit of £490,000.

In the previous year there were sales of £2.44m, yielding a profit of £542,000 after adjusting to include unbilled revenues at the year end of £119,000.

Envex Company Limited  
Sales of £224,000, yielding a profit of £15,000.

By comparison, invoiced sales for the four months after acquisition were £55,000, resulting in a profit of £3,000.

#### Dividend

The Board is proposing a final dividend of 0.85p per ordinary share to be paid on 19 September 2008 to shareholders on the register as at 22 August 2008.

#### Prospects

We are finding that the pricing of health and safety consultancy services is becoming more competitive, and margins are under pressure. Despite this tougher economic environment, the Board takes the view that PHSC plc can look forward to revenue growth and a good performance in the forthcoming year. Whilst much of the growth is dependent on the successful conclusion of the proposed acquisitions outlined above, the marketplace for the current subsidiaries' services is still strong. We feel that we are better placed than the majority of our competitors to withstand the effects of any downturn. Our confidence arises from the fact that we have a very diverse client portfolio and there are many ongoing contracts that will underpin revenues.

Trading in the first two months of 2008/09 generated Group revenues of £810,000 (2007/08: £725,000).

## **AGM**

The Annual General Meeting will be held on Friday 12 September 2008 at The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR at 10:00am.

Stephen King  
Group Chief Executive

**GROUP BALANCE SHEET  
AS AT 31 MARCH 2008**

31.3.08

31.3.07

Restated

£'000

£'000

**Non-Current Assets**

Property, plant and equipment

807

818

Goodwill

2,585

2,240

3,392

3,058

**Current Assets**

Inventories

263

389

Trade and other receivables

1,026

951

Cash and cash equivalents

1,303

1,469

2,592

2,809

**Total Assets**

**5,984**

**5,867**

**Current Liabilities**

Trade and other payables

551

504

Financial liabilities

4

84

Current corporation tax payable

238

236

Short term provisions

80

144

873

968

**Non-Current Liabilities**

Financial liabilities

85

287

Long term provisions

50

-

Deferred tax liabilities

83

91

218

378

**Total Liabilities**

**1,091**

**1,346**

**Net Assets**

**4,893**

**4,521**

**Capital and Reserves attributable to Equity  
holders of the Group**

Called up share capital

1,152

1,166

Share premium account

1,488

1,488

Revaluation reserve

200

202

Capital redemption reserve

19

5

Retained earnings

2,034

1,660

4,893

4,521

**GROUP INCOME STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2008**

	31.3.08	31.3.07
	£'000	Restated £'000
<b>Continuing operations:</b>		
Revenue	5,078	4,589
Cost of sales	2,721	2,306
Gross Profit	<u>2,357</u>	<u>2,283</u>
Administrative expenses	1,637	1,504
Other income	1	1
Operating Profit	<u>721</u>	<u>780</u>
Finance income	56	9
Finance costs	20	28
Profit before taxation	<u>757</u>	<u>761</u>
Corporation tax expense	236	239
<b>Profit for the Financial Year on Continuing Operations</b>	<u><b>521</b></u>	<u><b>522</b></u>
<b>Loss for the Financial Year on Discontinued Operations</b>	<b>-</b>	<b>60</b>
<b>Profit for the Financial Year</b>	<u><u><b>521</b></u></u>	<u><u><b>462</b></u></u>
<b>Attributable to:</b>		
Equity holders of the Group	<u>521,162</u>	<u>462,401</u>
Earnings per Share for Profit from Continuing Operations attributable to the Equity Holders of the Group during the year		
Basic	4.48p	5.31p
Diluted	4.42p	5.22p
Earnings per Share for Profit from Discontinued Operations attributable to the Equity Holders of the Group during the year		
Basic	-	(0.61)p
Diluted	-	(0.60)p

**GROUP STATEMENT OF  
CHANGES IN EQUITY  
FOR THE YEAR ENDED  
31 MARCH 2008**

	Share Capital £	Share Premium £	Capital Redemption Reserve £	Revaluation Reserve £	Retained Earnings £	Total £
<b>Balance at 1 April 2006</b>	983	728	-	205	1,298	3,214
Profit for year attributable to equity holder	-	-	-	-	462	462
Dividends	-	-	-	-	(74)	(74)
Issue of ordinary shares	188	812	-	-	-	1,000
Costs of placing new shares issued	-	(52)	-	-	-	(52)
Purchase of own shares	(5)	-	5	-	(29)	(29)
Depreciation on revalued assets	-	-	-	(3)	3	-
<b>Balance at 31 March 2007</b>	<b>1,166</b>	<b>1,488</b>	<b>5</b>	<b>202</b>	<b>1,660</b>	<b>4,521</b>

<b>Balance at 1 April 2007</b>	1,166	1,488	5	202	1,660	4,521
Profit for year attributable to equity holder	-	-	-	-	521	521
Dividends	-	-	-	-	(92)	(92)
Purchase of own shares	(14)	-	14	-	(57)	(57)
Depreciation on revalued assets	-	-	-	(2)	2	-
<b>Balance at 31 March 2008</b>	<b>1,152</b>	<b>1,488</b>	<b>19</b>	<b>200</b>	<b>2,034</b>	<b>4,893</b>

<b>GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008</b>	31.3.08	31.3.07
	£'000	Restated £'000
	Note	
<b>Cash flows from operating activities:</b>		
Cash generated from operations	I 897	658
Interest paid	(20)	(28)
Tax paid	(245)	(186)
<b>Net cash generated from operating activities</b>	<u><b>632</b></u>	<u><b>444</b></u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(42)	(166)
Proceeds from sale of property, plant and equipment	-	7
Purchase of subsidiary companies (net of cash acquired)	(382)	(160)
Interest received	56	9
<b>Net cash used in investing activities</b>	<u><b>(368)</b></u>	<u><b>(310)</b></u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	93
Repayment of borrowings	(281)	(90)
Dividends paid to group shareholders	(92)	(74)
Proceeds of share issues	-	948
Purchase of own shares	(57)	(29)
<b>Net cash (used by)/generated from financing activities</b>	<u><b>(430)</b></u>	<u><b>848</b></u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(166)</b>	<b>982</b>
Cash and cash equivalents at beginning of year	<u>1,469</u>	<u>487</u>
<b>Cash and cash equivalents at end of year</b>	<u><b>1,303</b></u>	<u><b>1,469</b></u>

<b>NOTE TO THE GROUP CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008</b>	31.3.08	31.3.07
	£'000	Restated £'000

**I. CASH GENERATED FROM OPERATIONS**

Operating profit – continuing operations	721	780
Profit for financial year – discontinued operations	-	(60)
Depreciation and amortisation charges	54	81
Loss on sale of discontinued operations	-	34
Loss on sale of fixed assets	-	3
Decrease/(increase) in stock and work in progress	126	(83)
Decrease/(increase) in debtors	10	(251)
(Decrease)/increase in creditors	(14)	154
<b>Cash generated from operations</b>	<u><b>897</b></u>	<u><b>658</b></u>

**For further information please contact:**

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