

PHSC plc

Annual Report
2010

 **Adamson's
Laboratory Services**


Health, Safety & Risk Consultants

 **In House**
In House The Hygiene Management Company

 **Inspection Services (U.K.)**

 **Personnel Health & Safety Consultants**


QUALITY LEISURE MANAGEMENT

 **RSA
Environmental Health**

PHSC plc

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for the year ended 31 March 2010

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COMPANY INFORMATION

for the year ended 31 March 2010

DIRECTORS:	S A King N C Coote G N Webb MBE M J L Miller
SECRETARY:	L E Young
REGISTERED OFFICE & BUSINESS ADDRESS:	The Old Church 31 Rochester Road Aylesford Kent ME20 7PR
REGISTERED NUMBER:	4121793 (England and Wales)
AUDITORS:	Horwath Clark Whitehill LLP Chartered Accountants & Registered Auditors 10 Palace Avenue Maidstone Kent ME15 6NF
SOLICITORS:	Gullands 16 Mill Street Maidstone Kent ME15 6XT
REGISTRARS:	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA
NOMINATED ADVISORS AND BROKERS:	Astaire Securities plc 46 Worship Street London EC2A 2EA

PHSC plc

GROUP CHIEF EXECUTIVE'S REVIEW

for the year ended 31 March 2010

I am pleased to present my review of the Group's financial performance for the year, along with some commentary about the corporate activity that has taken place. After outlining the performance of individual subsidiaries, I explain some of the potential challenges that we face in the future.

General Overview

Despite a reduction in revenues of around £122,000, prudent cost-control by management teams at Group subsidiaries assisted us to improve margins and deliver higher profits for the year. Payroll is our greatest cost, and a policy of freezing salaries for all employees and directors was adopted. The support and loyalty of all our staff enabled us to remain competitive.

One acquisition was concluded at the end of the calendar year, when Quality Leisure Management Limited (QLM) became part of the Group. The new company specialises in leisure management consulting, and works with industry lead bodies in the development of standards and guidance. Reference to the transaction is made in the section headed "Recent and Proposed Acquisitions" below.

A total of 800,000 ordinary shares in PHSC plc were repurchased during the year and subsequently cancelled. This was in line with the board's policy of buying back shares where cash flow permits and the price is attractive. The net cost of the buybacks was £139,800. After allowing for new shares issued in connection with the acquisition of QLM, the combined effect was to reduce total issued ordinary shares by 694,000 at the year end.

The Group repaid its outstanding bank loan of approximately £84,000 leaving no outstanding borrowings.

Recent and Proposed Acquisitions

The final instalment relating to the acquisition of In House the Hygiene Management Company Limited (In House) was made in November 2009.

As stated in last year's report, we believe that the net assets of Inspection Services (UK) Limited (Inspection Services), purchased in October 2008, were overstated by the seller and we continue to seek reimbursement of the overpayment as per the warranties in the sale contract. A resolution is expected in the near future. Based on accounting standards in line with UK GAAP we have also determined that the profit-related payment of £25,000 potentially due on the first anniversary is not payable.

QLM was acquired on 31 December 2009. £235,000 has been paid in cash of which £35,000 was for non-cash assets. In addition, the sellers were issued with 105,954 new ordinary shares. A further unconditional consideration of £200,000 is payable on 31 December 2010. Provided that QLM achieve pre-tax profits that average £100,000 for each of the two years immediately following acquisition, an additional amount of £100,000 will be payable. This figure is adjusted, £ for £ up or down, according to performance against the target, but is capped at a maximum of £200,000.

QLM have been industry leaders in developing standards in partnership with professional bodies such as the Institute of Sport and Recreational Management, and offer a number of assessment verification services. A particular strength is the company's QLM Leisuresafe brand that provides certification and accreditation within the sport, leisure and hospitality industry.

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. The contracts of both non-executives have been extended until 31 March 2011.

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.

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GROUP CHIEF EXECUTIVE'S REVIEW *(continued)*

for the year ended 31 March 2010

Performance by Trading Subsidiaries

Profit figures below are stated before tax and Group management charges. Note that revenues for safety training courses and general consultancy assignments are usually credited to the company generating the sale. It is sometimes the case that the consultant delivering the work is not from the same subsidiary and Group policy is not to cross-charge for such services. For that reason, reference should be made to the Group's overall performance rather than relying upon direct comparisons at subsidiary level.

Personnel Health and Safety Consultants Limited

Sales of £978,500, yielding a profit of £418,000.

In the previous year there were sales of £1.08 million and a profit of £518,000.

RSA Environmental Health Limited

Sales of £650,500, yielding a profit of £6,000.

In the previous year there were sales of £802,000 and a loss of £29,000.

Adamson's Laboratory Services Limited

Sales of £2.45 million yielding a profit of £390,000.

In the previous year there were sales of £2.60 million, yielding a profit of £410,000.

Envex Company Limited

Sales of £190,000, yielding a profit of £28,500.

In the previous year there were sales of £225,000 and a profit of £9,000.

In House The Hygiene Management Company Limited

Sales of £189,500 yielding a profit of £45,500.

In the previous year there were sales of £233,000 and a profit of £10,000.

Inspection Services (UK) Limited

Sales of £270,000, yielding a profit of £20,000.

In the previous year there were sales of £128,000, yielding a profit of £33,000 for the six-month period from the date of acquisition. Note that the relatively high profit figure arose due to a change in accounting treatment and was not representative of normal margins.

Quality Leisure Management Limited

Sales of £203,000, yielding a profit of £40,000 in the three months following acquisition.

In the company's previous full year under private ownership it reported revenues of £785,000 and profits of £186,000.

Dividend

The board is proposing a final dividend of 0.90p per ordinary share to be paid on 24 September 2010 to shareholders on the register as at 27 August 2010.

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GROUP CHIEF EXECUTIVE'S REVIEW *(continued)*

for the year ended 31 March 2010

Prospects

Much of the Group's work relates to regulatory compliance, but we do not expect to escape the effect of the widely-publicised 25% reduction to most areas of government spending. Each of our subsidiaries has been asked to make its own assessment of how it may be impacted by cuts in the public sector, and whether new opportunities may arise. The general consensus is that whilst revenues from these sources will inevitably be squeezed, the overall consequences are more likely to be seen indirectly. Group clients who rely heavily upon public sector funding may find themselves less able to finance their own compliance needs.

Last year we set ourselves a target of trying to maintain revenues at a similar level to the previous year. We narrowly fell short of this but managed to improve profitability which is a more important statistic. Our objective for the year ahead is to continue to integrate subsidiaries and exploit cross-selling opportunities. We will work on expanding the client base, particularly in the private sector. We will remind clients that whilst prudence is both necessary and appropriate, meeting occupational health and safety obligations cannot be compromised for financial reasons.

Our Adamson's Laboratory Services subsidiary is investing around £20,000 in new IT equipment and software to enable it to become more efficient, and hopes to recover the outlay by spending less on ongoing support and maintenance.

Our subsidiaries RSA Environmental Health Limited (RSA) and In House merged on 31 March 2010. This is a practical step as both were under the same management and both are based at the Raunds location. In House will function as a trading division of RSA. There will be some savings relating to accountancy but operationally there is little change.

With substantial cash reserves and no debt, we are not reliant upon external funding and have more than enough resources to meet our foreseeable obligations. However, we do not underestimate the challenges ahead.

Stephen King

Group Chief Executive

PHSC plc

REPORT OF THE DIRECTORS

for the year ended 31 March 2010

The directors present their report with the audited financial statements of PHSC plc Company and Group for the year ended 31 March 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Group in the year under review was that of providing through its subsidiary companies, consultancy services and training in respect of health and safety matters. Particular specialisms within the Group include asbestos consultancy and training, environmental and food hygiene and, statutory examinations of plant and equipment. A wide range of services to the sport and leisure management sector is now provided as a result of an acquisition during the year.

REVIEW OF BUSINESS

The Group results for the year and financial position of the Group is shown in the annexed financial statements. The group chief executive's review of the business is provided on pages 3 to 5. A review of the activities of each trading subsidiary is provided below.

Personnel Health & Safety Consultants Limited (PHSCL)

Turnover for the year was £978,500 compared with £1,081,000 for the previous year. The reduction in revenues is in part attributable to reduced spending in the public sector, notably in respect of a large contract for training with Isle of Wight Council where client spend dropped by £40,000 compared with the previous year. Annual revenue also fluctuates as a consequence of normal business activity and more particularly because subsidiaries within the Group can and do call upon fee-earners from other subsidiaries to carry out work on their behalf. PHSCL has been a significant net contributor of resources but follows Group policy in not generating cross-charges.

Adamson's Laboratory Services Limited (ALS)

There was a 6% reduction in turnover for the year ended 31 March 2010 but due to good cost control this resulted in profit for the financial year falling by 4% from £410,000 to £390,000.

The company continues to provide asbestos consultancy to a wide range of clients. New and extended contracts gained during the year include asbestos consultancy and surveying services for St George's Community Housing, University of Cambridge, Hertfordshire County Council, Chelmer Housing, University College London and the Royal Household Property Services.

The Raunds office continues to be successful and a computer aided design operator has been employed to work at this location. Whilst working alongside the Corringham office assisting and servicing existing clients, the Raunds office is making a name for itself acquiring new clients and developing new business.

The health and safety department has been successful in winning substantial new business via the Appointed Safety Advisor Service (ASA). All of the existing ASA clients have renewed their contracts for 2 years. The department continues to undertake occupational hygiene and legionella consultancy, and has been awarded a 3 year contract with Chelmer Housing Partnership for legionella risk assessments. The British Occupational Hygiene Society proficiency modules run on a regular basis and the demand for asbestos awareness training has grown as the construction industry complies with the Control of Asbestos Regulations 2006.

New asbestos surveying guidance was produced by the Health and Safety Executive in January 2010. This places an increased responsibility on the duty holder/client to ensure the management of asbestos in their premises. Although this is relatively new guidance it is thought that it will have a positive impact on ALS.

RSA Environmental Health Limited (RSA)

Turnover for the year was £650,500 compared to £802,000 in the previous year. Despite the fall in revenue, the profit of £6,000 represents a significant improvement in performance as RSA posted a loss of £29,000 in the year ended 31 March 2009.

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2010

The fall in turnover arose primarily as a consequence of reduced demand from local authorities for temporary environmental health staff cover where relatively low profit margins are earned. Turnover has been maintained in respect of consultancy and training work delivered to the private sector where higher profit margins can be achieved. This new balance has resulted in RSA being more profitable despite a fall in total sales. In addition, RSA has streamlined its service delivery and expenditure has been kept under close control.

It is pleasing to note that sales of the appointed safety advisor service, the cornerstone of the Group's business activity, have increased to record levels for RSA. Sales from this activity alone stood at £110,000 for the year, representing 17% (2009: 10%) of total turnover. These are contract sales and therefore offer continuity of business and for this reason RSA will be concentrating resources upon expanding this area of service in the future.

Reference has already been made in the group chief executive's review on page 5 to the merge between RSA and In House which took place on 31 March 2010.

Envex Company Limited (Envex)

Turnover of £190,000 was achieved in the year generating a gross profit margin of 72%. This resulted in a profit before tax and management charge of £28,500.

Tight cost controls have remained in place and a new IT system has been installed. The latter measure has improved customer service, allowed a more flexible and efficient working environment and improved business continuity arrangements. A new telecoms system has been commissioned which has simultaneously brought operational benefits and reduced ongoing costs.

The focus continues to be on growing the appointed safety advisor service. Envex successfully uses companies acquired by PHSC plc to provide opportunities to cross-sell its services.

Envex's ability to provide risk management training remains a unique offering within the PHSC plc Group and that area is being developed with the imminent introduction of the Institute of Risk Management's new two-day risk management course.

In House The Hygiene Management Company Limited (In House)

Turnover fell from £233,000 in the year ended 31 March 2009 to £189,500 in the year ended 31 March 2010. The fall in sales can largely be attributed to a difficult trading climate, particularly as In House provides consultancy and training to the hospitality sector that has suffered since the start of the recession. On a positive note, cost of sales reduced in percentage terms and assisted in improving profits from £10,000 for the year ended 31 March 2009 to £45,500 for the year ended 31 March 2010 (before tax, inter-company management charges and exceptional profit on the disposal of the business to RSA). The reduction in overheads was assisted by the transfer of In House's administrative function to RSA's office in Raunds which enabled staff and other resources to be shared.

Trading remained relatively buoyant given the economic climate and the company was particularly successful in expanding business within the independent schools sector, where In House has a growing reputation as a provider of competent, yet pragmatic safety advice and training. This is an area of business that is to be further explored in the coming year. Furthermore, the business will continue to fully integrate with RSA, developing its status as a trading division named simply 'In House'. The intention is to further share resources and expertise to help both businesses.

Inspection Services Limited (Inspection Services)

Inspection Services continues to provide services to a broad range of clients on behalf of insurance brokers, and directly works for a variety of SME's. During the year, the company has moved away from the previous owner's strategy of relying upon contract labour to carry out inspections and examinations. The majority of work is now undertaken by directly-employed engineer surveyors, with a resultant increase in payroll costs and a corresponding reduction in

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2010

sub-contractor fees. The administrative team has also been restructured, and is self-sufficient in running the business now that the contractual handover period post-acquisition has expired. A framework has been put in place to computerise the paper-based systems that have previously been relied upon.

In addition, the benefits of being part of a larger organisation have brought opportunities to expand the client base further and this process will continue.

Quality Leisure Management Limited (QLM)

QLM is an established and respected sport and leisure management consultancy company, specialising in the principles and practices of operations, management of quality, health and safety and continuous improvement. The first three months following acquisition has seen “business as usual” with the flow of assignments consistent with 2009 and pre-acquisition. Client and staff confidence has not been adversely affected by the changes. Income and profits are on target, the retained client base of 59 organisations has been maintained and new services are being developed to ensure value is continued to be added. Advantage has already been taken of cross-selling opportunities, for example other members of the Group have undertaken asbestos surveys and fire training for QLM customers. QLM has secured a contract extension to the end of 2012 with The Institute of Sport and Recreation Management for the ongoing management of their consultancy service.

KEY PERFORMANCE INDICATORS (KPI's)

The board currently looks at three KPI's.

1. Total revenues

Total revenues are reviewed each month across the Group because this information gives a ready measure of how well the Group is performing relative to historical data. It enables any trend to be detected, understood and acted upon as appropriate.

2. Pre-tax profit per subsidiary before Group management charges

Profits before tax and management charges are reviewed by subsidiary each month because the board is keen to ensure that each subsidiary trades profitably. Although the Group does not adopt a policy of cross-charging between subsidiaries, informal account is taken of significant work done by one subsidiary on behalf of another.

3. Staff turnover

Staff turnover is monitored because the key asset of each subsidiary is its workforce. Recruiting replacement staff is an expensive task and it is not always possible to compensate for the specialised knowledge that may be lost when an employee departs. At the beginning of the year the total number of full-time equivalent staff directly employed by the Group was 73 and at the end of the year the figure was 85. During the year there were 23 joiners and 11 leavers. The equivalent of 8 full time employees joined the Group further to the acquisition of QLM.

PRINCIPAL RISKS AND UNCERTAINTIES

Regulatory/Marketplace

Much of the Group's work involves assisting organisations with the implementation of measures to meet regulatory requirements relating to health and safety at work. If the regulatory burden was to be substantially lightened, for example if the government embarked upon a programme of radical deregulation, there could be less demand for the Group's services.

If it became mandatory for organisations of a certain size to employ dedicated health and safety personnel directly, this may have the effect of substantially reducing the number of clients to whom the Group could provide a service.

Changes to the operation of the employer's liability insurance system, as proposed in some quarters, could reduce the incentive for organisations to buy in claims-preventive services such as health and safety advice.

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2010

Technological

The Group's website is a primary source of new business. If the website became inaccessible for protracted periods, or was subject to "hacking", this may prejudice the opportunity to obtain new business.

The increase in the use of the internet for satisfying business requirements may lead to a reduction in demand for face-to-face consultancy services.

The number of training courses commissioned from Group companies may be affected by moves towards screen-based interactive learning.

Personnel

Generally there is an excess of demand over supply for health and safety professionals. Those with sufficient qualifications and experience to be suitable for consultancy roles are in the minority. This has the combined effect of making it difficult for the Group to source suitable personnel and having to offer higher remuneration packages to attract them.

The Group is dependent upon its current executive management team. Whilst it has entered into contractual arrangements with the aim of securing the services of these personnel, the retention of their services cannot be guaranteed. Accordingly, the loss of any key member of management of the Group may have an adverse effect on the future of the Group's business.

Geographical

The Group offers a nationwide service but does not have offices north of the Midlands. Some organisations see benefit in using consultancies that are local to them and this puts the Group at a disadvantage when seeking contracts in the north of the UK.

Licences

The Group is reliant on licences and accreditations in order to be able to carry on its business. The temporary loss of, or failure to maintain, any single licence or accreditation would be unlikely to be materially detrimental to the Group, as the directors believe that this could be remedied. However, if the Group fails to remedy any loss of, or does not maintain, any licence or accreditation, this would have a material adverse effect on the business of the Group.

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks. The Group:

- regularly reviews credit extended to customers with appropriate action being taken to minimise the cost of bad debts;
- balances risk and return when assessing where to place cash surplus to the Group's immediate requirements; and
- keeps open options to employ debt finance to ensure that the Group has sufficient funds for continuing operations and planned expansions.

CAPITAL

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Group, comprising issued capital, reserves and retained earnings as disclosed in notes 10 and 11.

GOING CONCERN

The financial statements have been prepared on the going concern basis, as detailed in the statement of directors' responsibilities on page 13.

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2010

EMPLOYEES

Each company within the Group has in place the necessary structures to ensure effective communication with its employees. In addition, there are initiatives to ensure that staff are offered continuing professional development opportunities appropriate to their roles.

DIVIDENDS

A dividend of £89,896 was paid during the year ended 31 March 2010 (2009: £97,334). The board is proposing a final dividend of 0.90p per ordinary share to be paid on 24 September 2010 to shareholders on the register as at 27 August 2010.

DIRECTORS

The directors during the year under review were:

S A King
N C Coote
M J L Miller
G N Webb MBE

SHARE BUY BACKS

The following fully paid ordinary 10p shares were purchased by PHSC plc during the year at a premium to their nominal value, as shown below:

	Number of shares	Nominal value of shares	Consideration paid
24 July 2009	500,000	£50,000	£90,000
21 January 2010	300,000	£30,000	£49,800
Total	800,000	£80,000	£139,800

The total of these purchases represent 8% of the current issued share capital of PHSC plc. The directors believe that it is appropriate to purchase shares for cancellation when they become available at, or at a lower level than, the level at which they were originally released to the market. This also has the effect of improving earnings per share.

CREDITOR PAYMENT POLICY

The Group seeks to maintain good relations with all of its trading partners. In particular, it is the Group's policy to abide by the terms of payment agreed with each of its suppliers. As at 31 March 2010 the number of creditors days in respect of trade creditors was 30 (2009: 22).

POLITICAL AND CHARITABLE CONTRIBUTIONS

Charitable donations of £426 (2009: £620) were made by the Group during the year. The Group does not make political contributions.

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2010

SUBSTANTIAL SHAREHOLDINGS

At 26 July 2010, the following persons had notified the company of an interest of 3% or more of its issued share capital.

Name	Number of ordinary shares	Percentage of issued share capital
S A King	3,103,100	29.89
N C Coote	3,084,342	29.71
Unicorn Asset Management Limited and Unicorn AIM VCT II plc	849,057	8.18
AXA SA and Group companies including AXA Framlington AIM VCT 2 plc	646,509 412,399	6.23 3.97

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The directors have implemented IFRSs as adopted by the European Union in the Group financial statements as required by the Alternative Investment Market (AIM).

PROVISION OF INFORMATION TO AUDITORS

So far as each of the directors is aware at the time the report is approved:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

ANNUAL GENERAL MEETING

This year's annual general meeting will be held at 10.00am on Thursday 9 September 2010 at The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR. The notice of meeting is set out on pages 45 and 46 of this document and a form of proxy is on page 47.

Details of the business to be considered at the meeting are given below.

Appointment of auditors (Resolution 4)

During the year the company's previous auditors, Littlejohn, resigned. This followed an exercise to put the audit out to tender. The board subsequently appointed Horwath Clark Whitehill as new auditors to fill the casual vacancy. Special notice has been received of the intention to propose the appointment of Horwath Clark Whitehill at the annual general meeting.

Authority of directors to allot shares (Resolutions 5 and 6)

By law, directors are not permitted to allot new shares (or to grant rights over shares) unless they are authorised to do so by shareholders. In addition, directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 5 gives the directors the necessary authority for a period of five years from the date when the resolution is passed to allot securities up to an aggregate nominal amount of £346,065.

Resolution 6 empowers the directors, until the earlier of the AGM in 2011 or a date 15 months after the 2010 AGM, to allot such securities for cash otherwise than on a pro rata basis to existing shareholders, up to a maximum of 2,076,390 ordinary shares of 10p each, equivalent to 20% of the issued share capital as at 26 July 2010. It is intended to renew this authority and power at each annual general meeting.

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2010

Authority for the company to purchase its own shares (Resolution 7)

Resolution 7 authorises the company, until the end of next year's AGM (or, if earlier, on the date which is 15 months after this year's AGM) to purchase in the market up to a maximum of 1,557,295 ordinary shares (equivalent to approximately 15% of the issued share capital of the company as at 26 July 2010) for cancellation at a minimum price of 10 pence per share and a maximum price per share of an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the Daily Official List) for the five business days immediately before the date of purchase.

The company may hold any repurchased shares in treasury, instead of cancelling them immediately. If the company buys back its own shares and holds them in treasury it may then deal with some or all of them in several ways. It may sell them for cash; transfer them under the provisions of an employee share scheme; cancel them; or continue to hold them in treasury. Holding shares in treasury in this way would allow the company to reissue them quickly and cost effectively, giving increased flexibility to the management of its capital base. Dividends are not paid on shares held in treasury, nor do they carry voting rights while they remain there. The directors intend to decide at the time of any share buyback, whether to cancel the shares immediately or to hold them in treasury, depending on what would best promote the success of the company at the time. The company does not currently hold any shares in treasury.

The proposal should not be taken as an indication that the company will purchase shares at any particular price or indeed at all, and the directors will only consider making purchases if they believe that such purchases would result in an increase in earnings per share and are in the best interests of shareholders.

Voting

A form of proxy is included at the end of this document for use at the AGM. Please complete, sign and return it as soon as possible in accordance with the instructions on it, whether or not you intend to come to the AGM. Returning a form of proxy will not prevent you from attending the meeting and voting in person if you wish. A form of proxy should be returned so that it is received not less than 48 hours before the time of the AGM.

The directors consider that all the resolutions to be put to the meeting are in the best interests of the company and its shareholders as a whole. The directors will be voting in favour of them and unanimously recommend that you do so as well.

On behalf of the board

L E Young

Secretary

29 July 2010

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 March 2010

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law and the company accounts under UK GAAP.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the report of the directors and other information included in the annual report and financial statements is prepared in accordance with applicable law in the UK.

The maintenance and integrity of the PHSC plc website is the responsibility of the directors; the work carried out by the auditors does not involve the consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred in the accounts since they were initially presented on the website.

Legislation in the UK governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Going concern basis

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group chief executive's review on pages 3 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described within these financial statements. In addition, note 1 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposure to credit risk and liquidity risk.

The Group has considerable financial resources together with long-term contracts with its customers and has a diversified income stream. The Group does not have any current borrowing or any anticipated borrowing requirements. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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CORPORATE GOVERNANCE STATEMENT

for the year ended 31 March 2010

The directors of the company support high standards of corporate governance as set out in the UK corporate governance code. They apply the principles of that code to the Group in the way that they consider to be most appropriate to its size and stage of development. As the company's shares are traded on AIM, it is not required to comply with all of the provisions of the code.

THE BOARD AND COMMITTEES

The board is made up of four directors, two of whom are executive (S A King and N C Coote) and two of whom are independent non-executive (M J L Miller and G N Webb MBE). The board has a list of matters that it does not delegate and a schedule of annual agenda items. Health and safety within the Group is considered at every board meeting. There is an audit committee and a remuneration committee. There is no separate nominations committee and the board as a whole deals with any matters that would normally be within the remit of such a committee. For example, the board reviews succession planning at senior levels within the Group at least annually.

During the year the directors have noted the discussions around best practice corporate governance and the updating of the UK corporate governance code. Over the next year the directors intend to review the board and committee terms of reference in light of the revisions made to the code and will make any changes they consider appropriate. It is not expected that it will be necessary for the Group to make any major changes to its governance practices. The directors have continued to disclose their other interests (as required by the Companies Act 2006) and to date there have been no actual or potential conflicts of interest between these and the interests of the company.

The audit committee comprises Mr. Miller (chairman) and Mr. Webb. It has written terms of reference. During the year it has considered internal controls and risk management issues which are relevant to the Group, focusing on risks in the current economic downturn. The focus on managing outstanding debtors has continued and improvements have been seen in collections. Accepting that no systems of control can provide absolute assurance against material misstatement or loss, the directors believe that the established systems for internal control within the Group are appropriate to the business.

During the year the audit work was put out to tender and as a result, the board resolved to appoint Horwath Clark Whitehill to replace Littlejohn. There is an annual audit planning meeting between the external auditors and the committee chairman as well as a formal meeting with the auditors and the committee at the time of the final results. Where relevant, developments in accounting standards and reporting have been discussed during the year. The audit committee reviews annually whether the Group needs to have an internal audit function and does not consider this to be necessary at present.

The remuneration committee comprises Mr. Webb (chairman) and Mr. Miller. The committee has written terms of reference and considers all aspects of the remuneration of the executive directors and other senior executives. As in prior years, any payments to senior executives under the Group bonus plan are approved by the committee.

Copies of the committees' terms of reference and of the schedule of matters reserved for the board are available on request. The committees meet twice each year (or more often if required) and the board at least five times a year. During the year there was full attendance at all board and committee meetings.

CORPORATE RESPONSIBILITY

Group companies are involved in the communities in which they operate and also provide sponsorship and donations to good causes. Details of these can be found on the corporate social responsibility section of the Group's website. The Group is also considering the introduction of some non-financial key performance measures in addition to the financial ones mentioned on page 8.

PHSC plc

CORPORATE GOVERNANCE STATEMENT *(continued)* *for the year ended 31 March 2010*

DIRECTORS' REMUNERATION

The remuneration of the executive directors was as follows:

	Salary	Bonus	Year ended 31.3.10 Pension	Benefits	Total	Year ended 31.3.09 Total
S A King	£82,700	£7,853	£3,240	£1,284	£95,077	£95,347
N C Coote	£64,050	£7,853	£3,240	£6,452	£81,595	£82,262

The pension contributions are estimated and accrued; they will be paid during the year ending 31 March 2011. Mr. King's benefits pertain to health insurance and Ms. Coote's to a company car and health insurance.

The fees of the non-executive directors were as follows:

	Year ended 31.3.10	Year ended 31.3.09
M J L Miller	£12,000	£12,000
G N Webb	£18,000	£18,000

RELATIONS WITH INVESTORS

Mr. King is the principal contact between PHSC plc and its investors, with whom he maintains a regular dialogue. The views of investors are communicated to the whole board.

PHSC plc

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

for the year ended 31 March 2010



We have audited the consolidated financial statements of PHSC plc for the year ended 31 March 2010 which comprise the group statement of comprehensive income, group statement of financial position, company balance sheet, group statement of changes in equity, group statement of cash flows and related notes 1 to 28.

The financial reporting framework that has been applied in preparing the Group accounts is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The company accounts have been prepared in accordance with UK GAAP.

This report is made solely to the company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2010 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK GAAP; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Keith Newman

Senior Statutory Auditor, for and on behalf of Horwath Clark Whitehill LLP, Maidstone

29 July 2010

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2010

	Note	31.3.10 £	31.3.09 £
Non-Current Assets			
Property, plant and equipment	5	839,148	846,625
Goodwill	6	3,257,468	2,734,442
Deferred tax asset	15	5,221	-
		<u>4,101,837</u>	<u>3,581,067</u>
Current Assets			
Inventories	9	2,650	400
Trade and other receivables	8	1,780,766	1,507,425
Cash and cash equivalents	10	710,328	843,079
		<u>2,493,744</u>	<u>2,350,904</u>
Total Assets		<u>6,595,581</u>	<u>5,931,971</u>
Current Liabilities			
Trade and other payables	12	862,959	670,960
Financial liabilities	13	-	8,443
Current corporation tax payable		174,396	31,246
Short term provisions	14	250,000	75,000
		<u>1,287,355</u>	<u>785,649</u>
Non-Current Liabilities			
Trade and other payables	12	-	2,134
Financial liabilities	13	-	75,422
Long term provisions	14	100,000	-
Deferred tax liabilities	15	80,440	73,652
		<u>180,440</u>	<u>151,208</u>
Total Liabilities		<u>1,467,795</u>	<u>936,857</u>
Net Assets		<u>5,127,786</u>	<u>4,995,114</u>
Capital and reserves attributable to equity holders of the Group			
Called up share capital	11	1,038,196	1,107,601
Share premium account	11	1,497,409	1,487,873
Revaluation reserve		194,483	197,376
Capital redemption reserve		143,628	63,628
Retained earnings		<u>2,254,070</u>	<u>2,138,636</u>
		<u>5,127,786</u>	<u>4,995,114</u>

The financial statements were approved and authorised for issue by the board of directors on 29 July 2010, and were signed on its behalf by:

S A King *Director*

Accounting policies and notes on pages 22 to 44 form part of these financial statements

COMPANY BALANCE SHEET

as at 31 March 2010

	Note	31.3.10 £	31.3.09 £
Fixed assets			
Intangible assets	6	41,004	43,691
Tangible assets	5	204,211	212,757
Investments	7	3,902,580	3,667,479
		<u>4,147,795</u>	<u>3,923,927</u>
Current Assets			
Debtors	8	599,880	127,155
Cash at bank	10	245,476	454,559
		<u>845,356</u>	<u>581,714</u>
Creditors			
Amounts falling due within one year	12	321,996	153,982
Net current assets		523,360	427,732
Amounts falling due after more than one year	13	–	75,422
Provisions for liabilities and charges	14	100,000	–
		<u>4,571,155</u>	<u>4,276,237</u>
Capital and Reserves			
Called up share capital	11	1,038,196	1,107,601
Share premium account	11	1,497,409	1,487,873
Capital redemption reserve		143,628	63,628
Profit and loss account		1,891,922	1,617,135
Shareholders Funds	28	<u>4,571,155</u>	<u>4,276,237</u>

The financial statements were approved and authorised for issue by the board of directors on 29 July 2010, and were signed on its behalf by:

S A King *Director*

Accounting policies and notes on pages 22 to 44 form part of these financial statements

PHSC plc

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2010

	Note	31.3.10 £	31.3.09 £
Continuing operations:			
Revenue		4,922,198	5,022,255
Cost of sales	17	(2,583,406)	(2,731,724)
Gross profit		2,338,792	2,290,531
Administrative expenses	17	(1,840,060)	(1,844,628)
Other income	16	2,060	1,664
Profit from operations		500,792	447,567
Finance income	20	235	31,920
Finance costs	20	(1,037)	(7,742)
Profit before taxation		499,990	471,745
Corporation tax expense	21	(157,753)	(145,853)
Profit after tax and total comprehensive income from continuing operations		342,237	325,892
Profit after tax and total comprehensive income		342,237	325,892
Attributable to:			
Equity holders of the Group		342,237	325,892
Earnings per Share for profit after tax and total comprehensive income from continuing operations attributable to the equity holders of the Group during the year			
Basic	22	3.21p	2.89p
Diluted	22	3.16p	2.85p

The company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent company profit and loss account. The profit for the year before dividends received from subsidiaries (£914,304) and exceptional loss on the transfer of the business from RSA to In House (£417,632) was £7,811 (2009: £272).

Accounting policies and notes on pages 22 to 44 form part of these financial statements

PHSC plc

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2010

	Share Capital £	Share Premium £	Capital Redemption Reserve £	Revaluation Reserve £	Retained Earnings £	Total £
Balance at 1 April 2008	1,152,101	1,487,873	19,128	200,269	2,034,147	4,893,518
Profit for year attributable to equity holders	-	-	-	-	325,892	325,892
Dividends	-	-	-	-	(97,334)	(97,334)
Purchase of own shares	(44,500)	-	44,500	-	(126,962)	(126,962)
Depreciation on revalued assets	-	-	-	(2,893)	2,893	-
Balance at 31 March 2009	<u>1,107,601</u>	<u>1,487,873</u>	<u>63,628</u>	<u>197,376</u>	<u>2,138,636</u>	<u>4,995,114</u>
Balance at 1 April 2009	1,107,601	1,487,873	63,628	197,376	2,138,636	4,995,114
Profit for year attributable to equity holders	-	-	-	-	342,237	342,237
Dividends	-	-	-	-	(89,896)	(89,896)
Issue of shares	10,595	9,536	-	-	-	20,131
Purchase of own shares	(80,000)	-	80,000	-	(139,800)	(139,800)
Depreciation on revalued assets	-	-	-	(2,893)	2,893	-
Balance at 31 March 2010	<u>1,038,196</u>	<u>1,497,409</u>	<u>143,628</u>	<u>194,483</u>	<u>2,254,070</u>	<u>5,127,786</u>

Accounting policies and notes on pages 22 to 44 form part of these financial statements

PHSC plc

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2010

	Note	31.3.10 £	31.3.09 £
Cash flows from operating activities:			
Cash generated from operations	I	554,227	422,221
Interest paid		(1,037)	(7,742)
Tax paid		(61,374)	(357,969)
Net cash generated from operating activities		491,816	56,510
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,323)	(89,344)
Purchase of subsidiary companies (net of cash acquired)		(320,049)	(229,151)
Interest received		235	31,920
Net cash used in investing activities		(331,137)	(286,575)
Cash flows from financing activities			
Repayment of borrowings		(83,865)	(6,096)
Dividends paid to Group shareholders		(89,896)	(97,334)
Shares issued		20,131	-
Purchase of own shares		(139,800)	(126,962)
Net cash used by financing activities		(293,430)	(230,392)
Net decrease in cash and cash equivalents		(132,751)	(460,457)
Cash and cash equivalents at beginning of year		843,079	1,303,536
Cash and cash equivalents at end of year		710,328	843,079

NOTES TO THE GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2010

	31.3.10 £	31.3.09 £
I. CASH GENERATED FROM OPERATIONS		
Operating profit - continuing operations	500,792	447,567
Depreciation and amortisation charge	82,243	84,204
Loss on sale of fixed assets	1,627	968
(Increase)/decrease in stock	(2,000)	2,000
(Increase)/decrease in debtors	(37,600)	(92,898)
Increase/(decrease) in creditors	9,165	(19,620)
Cash generated from operations	554,227	422,221

PHSC plc

ACCOUNTING POLICIES

for the year ended 31 March 2010

General information

PHSC plc is a company listed on AIM and incorporated in the UK under the Companies Act 2006. The address of the registered office is given at the front of this report. The nature of the Group's operations and its principal activities are set out in The Report of the Directors on page 6. The financial statements are presented in pounds sterling, the currency of the primary economic environment in which the Group operates.

Basis of preparation of financial statements

The Group's financial statements have been prepared in accordance with IFRSs, as adopted by the European Union, International Financial Reporting Intermediate Committee (IFRIC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRSs. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The directors have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' which requires the reasons for this decision to be explained. The directors regard the going concern basis as remaining appropriate as the Group has adequate resources to continue in operational existence for the foreseeable future based upon forecasts. Further details are provided in the directors' report.

Summary of Significant Group Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Standards and interpretations in issue but not yet effective or not yet relevant

Title	Effective date – accounting period	
	Issued	beginning on or after
IAS 39 Financial Instruments: Recognition and Measurement (Amendment) – Eligible Hedged Items	July 08	01/07/2009
IFRS 7 Improving Disclosures about Financial Instruments Amendments to IFRS 7 Financial Instruments: Disclosures	March 09	01/01/2009
IFRIC 18 Transfers of Assets from Customers	January 09	01/07/2009
Amendment to IAS 32 Classification of Rights Issues	October 09	01/02/2010
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	June 09	01/01/2010
Improvements to IFRS (covering IFRS 3 & 7 and IAS 1 & 34 and IFRIC 13)	April 09	01/01/2010
Improvements to IFRS (covering IFRS 2 & 8 and IAS 1, 7, 17, 18, 36, 38 & 39 and IFRIC 9)	May 10	01/07/2010
Improvements to IFRS (covering IAS 1, 16, 23, 36, 38 and 39)	May 10	01/01/2011

IAS 1 "Presentation of Financial Statements" (Revised 2007) requires presentation of an additional comparative balance sheet as a result of the retrospective adoption of this standard. The directors consider this to be unnecessary for the year ended 31 March 2010 on the basis that the 31 March 2008 and 2009 balance sheets remain the same as that previously published.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2010

Basis of Consolidation

The Group financial statements consolidate the financial statements of PHSC plc and all its subsidiary undertakings made up to 31 March 2010.

Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

The acquisition of subsidiaries has been accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising on purchases prior to 1 April 2006 was capitalised and amortised over its useful economic life.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Property, Plant and Equipment

Property, plant and equipment are stated at cost or fair value, net of depreciation and any provision for impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Property, plant and equipment held at fair value are subject to a valuation carried out by an independent external valuer at least every five years.

At the date of transition to IFRSs, the carrying value of land and freehold buildings that had previously been revalued is shown as deemed cost, and not subsequently revalued.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income in the period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases on the same asset are charged against other reserves directly in equity. All other decreases are charged to the statement of comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount and depreciation based on original cost is transferred from other reserves to retained earnings.

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life, as follows:

Freehold property	-	2% on cost
Improvements to property	-	10% on cost
Fixtures and equipment	-	25% on reducing balance
Motor vehicles	-	25% on reducing balance

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

An asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2010

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are recognised in the statement of comprehensive income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Operating Lease Commitments

An operating lease is one in which a significant portion of the risks and rewards of ownership are retained by the lessor. Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Intangible Assets

Goodwill arises on the acquisition of subsidiary undertakings and interests and represents the excess of the cost of acquisition over the net asset values of the subsidiaries or interests acquired. Such goodwill is capitalised as an intangible asset and is stated at cost less accumulated amortisation and impairment losses.

Impairment of Intangible Assets and Property, Plant and Equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from the business combination on which the goodwill arose, and represent the lowest level within the Group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use, are tested for impairment at least annually. All intangible assets and property, plant and equipment with a finite life are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. Impairment losses are charged to administrative expenses.

Inventories

Inventories are stated at the lower of cost and net realisable value, calculated on purchase cost on a first-in, first-out basis.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, demand deposits, bank overdrafts, and short-term, highly liquid investments that are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value.

Discontinued Operations

A discontinued operation is a cash-generating unit, or a group of cash-generating units, that has either been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Where relevant the results of discontinued operations are shown separately from continuing operations.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2010

Financial Instruments

Provision is made for diminution in value where appropriate.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Trade payables are recognised at initially fair value and subsequently measured at amortised cost.

Financial Liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities categorised as at fair value through profit or loss are measured initially at fair value, with all transaction costs being recognised immediately in the statement of comprehensive income. All other financial liabilities are measured initially at fair value, net of direct issue costs.

Financial liabilities categorised as at fair value through profit or loss are measured after initial recognition at fair value, with changes in fair value being taken to the statement of comprehensive income in the period in which they occur. All other financial liabilities are recorded at amortised cost, using the effective interest method, with interest-related charges being recognised as an expense under finance costs in the statement of comprehensive income. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the statement of comprehensive income on an accruals basis, using the effective interest method, and are added to the carrying amount of the instrument, to the extent that they are not settled in the period in which they arise.

A financial liability is derecognised only when the obligation is extinguished, that is, when the obligation is discharged, is cancelled, or expires.

Taxation

Current tax is the tax currently payable based on the taxable profit for the year.

Deferred tax is provided in full, using the liability method, on temporary differences between the carrying amounts of assets and liabilities and their tax bases, except when, at the initial recognition of the asset or liability, there is no effect on accounting or taxable profit or loss. Deferred tax is determined using tax rates and laws that have been substantially enacted by the statement of financial position date, and that are expected to apply when the temporary difference reverses.

Tax losses available to be carried forward, and other tax credits to the Group, are recognised as deferred tax assets, to the extent that it is probable that there will be future taxable profits against which the temporary differences can be utilised.

Changes in deferred tax assets or liabilities are recognised as a component of the tax expense in the statement of comprehensive income, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land), in which case the related deferred tax is also charged or credited directly to equity.

Provisions

These are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2010

Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Employee Benefits

The Group supports various personal pension arrangements. The Group also operates a defined contribution pension scheme. This is a scheme under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in current and prior years. Agreed contributions are charged to the statement of comprehensive income as they become payable.

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable by the Group for services provided in the ordinary course of the Group's activities, excluding VAT and trade discounts. Revenue is recognised in line with contract activity and reflects the accrual to consideration as the contract activity progresses.

Research and Development

Research expenditure is recognised as an expense as incurred.

Dividend Distribution

Dividend distributions payable to equity shareholders are included in "trade and other payables" when the dividends are approved in general meeting.

Summary of Significant Company Accounting Policies

The financial statements of PHSC plc (the company) have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Goodwill

Goodwill in the company financial statements represents the amount paid in connection with the acquisition of a business and is being amortised evenly over 20 years.

Investments

Investments in subsidiary undertakings are stated at cost less amounts provided for any impairment in value. An impairment review is carried out at the end of the first year in which the acquisition took place and as a minimum every three years thereafter. Where the consideration for the acquisition of shares in a subsidiary undertaking is satisfied by the issue of equity shares and the provisions of Section 612 of the Companies Act 2006 apply, cost is taken as the nominal value of the shares issued together with the fair value of any other consideration given.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax balances are not discounted.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2010

1. FINANCIAL RISK MANAGEMENT

Financial Risk

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the board who evaluate and manage financial risks in close co-operation with the managing directors of the subsidiary companies. The Group

- regularly reviews credit extended to customers with appropriate action being taken to minimise the cost of bad debts;
- balances risk and return when assessing where to place cash surplus to the Group's immediate requirements; and
- keeps open options to employ debt finance to ensure that the Group has sufficient funds for continuing operations and planned expansions.

Market Risk

The Group has interest-bearing assets which are subject to a variable rate of interest. Thus the Group is only exposed to fair value interest rate risk, which is not expected to have a significant impact on profit or loss or equity.

Credit Risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made.

No credit limits were exceeded during the year, and management does not expect any losses from non-performance by these counterparties.

Liquidity Risk

The Group repaid its loan finance during the year but avenues for securing debt finance are kept open to ensure that funds may be called upon if and when needed for operations and planned expansions. The board monitors the Group's liquidity position on the basis of expected cash flow on a regular basis.

The following table analyses the Group's financial liabilities, which will be settled on a net basis, into relevant maturity groupings, based on the remaining period to maturity at 31 March. The amounts disclosed are the contractual undiscounted cash flows:

	Less than 1 year £	Between 1 & 2 yrs £	Between 2 & 5 yrs £	Over 5 yrs £
At 31 March 2010				
Borrowings	-	-	-	-
Trade and other payables	862,959	-	-	-
At 31 March 2009				
Borrowings	8,443	8,600	26,519	40,303
Trade and other payables	670,960	2,134	-	-

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates and Assumptions

The directors are required to make estimates and judgements concerning the future. These estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The areas involving a higher degree of judgement or complexity and areas where assumptions are significant to the production of these financial statements are disclosed below.

(a) Provisions

The Group recognises a provision where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome.

A provision of £64,593 is included in trade and other receivables relating to an amount considered to be owed by the former owner of Inspection Services. It is believed that the seller overstated the net assets and reimbursement of the overpayment is being sought as per the warranties in the sale contract.

Note 14 provides details of a £100,000 liability included in long term provisions relating to the payment due on the second anniversary of the acquisition of QLM. Provided that QLM achieves pre-tax profits that average £100,000 for each of the two years immediately following acquisition, an additional amount of £100,000 will be payable. This figure will be adjusted, pound for pound up or down, according to performance against the target, but is capped at a maximum of £200,000.

Although provisions are reviewed on a regular basis and adjusted for the director's best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

(b) Taxation

At the balance sheet date, tax liabilities and assets are based on the director's best estimate of the future amounts that will be settled. While the Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected. Deferred tax assets mainly represent past tax losses that the Group expects to recover in the foreseeable future and by their nature the amounts recorded are therefore dependent on management's judgement about future events.

(c) Impairment of goodwill

An impairment of goodwill has the potential to significantly impact upon the Group's statement of comprehensive income for the year. In order to determine whether impairments are required the directors estimate the recoverable amount of the goodwill. This calculation is based on the Group's forecasts for the following financial year extrapolated over a six year period assuming a zero growth rate. Estimated future results for impairment calculations are based on the directors expectations of future volumes and margins based on the business plan. Full details are disclosed in note 6.

Critical Judgements in applying the Entity's Accounting Policies

Income as at 31 March 2010 has been valued in accordance with UITF40 (Revenue Recognition and Service Contracts). Revenue has been recognised in line with contract activity and reflects the accrual to consideration as the contract activity progresses.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

3. SEGMENTAL REPORTING

IFRS 8 requires that operating segments be identified on the basis of internal reporting and decision-making. PHSC plc's operating segments are by subsidiary company as the directors and management team receive and make decisions based on monthly management accounts by subsidiary. A description of each subsidiary's trade is provided in the director's report on page 6.

The following table shows the Group's revenue and results for the year under review analysed by operating segment. Segment operating profit represents the trading profit after depreciation, but before tax and management charge. All revenue arose in the UK and all assets and liabilities are located in the UK. The Group's key customer profile is given in note 8. The figures for QLM are for the three month period post acquisition.

	PHSC plc	PHSCL	RSA	ALS	Envex	IH	ISL	QLM	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Year ended 31 March 2010									
Total revenue	-	979	635	2,455	190	190	270	203	4,922
Interest paid	1	-	-	-	-	-	-	-	1
Depreciation	8	14	1	19	1	1	1	2	47
Taxation	(1)	68	-	63	4	7	1	12	154
Deferred taxation									4
Subsidiary operating profit	(415)	419	8	390	29	45	20	40	536
Consolidation adjustment:									
Goodwill impairment									(35)
Group profit from operations									501
Dividends receivable	914	-	-	-	-	-	-	-	914
Year ended 31 March 2009									
Total revenue	-	1,059	778	2,599	225	233	128	-	5,022
Interest received	3	22	-	5	1	1	-	-	32
Interest paid	5	2	-	1	-	-	-	-	8
Depreciation	10	16	1	21	1	1	1	-	51
Taxation	12	74	-	58	(1)	-	6	-	149
Deferred taxation									(3)
Subsidiary operating profit	(445)	497	(29)	407	9	9	33	-	481
Consolidation adjustment									
Goodwill impairment									(33)
Group profit from operations									448
Dividends receivable	1,470	-	-	-	-	-	-	-	1,470

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

3. SEGMENTAL REPORTING – continued

The table below shows assets and liabilities by subsidiary, exclusive of inter-company balances.

	PHSC plc	PHSCL	RSA	ALS	Envex	IH	ISL	QLM	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2010									
Non-current assets	4,155	391	433	206	1	-	2	28	5,216
Current assets	250	244	167	1,268	70	-	160	270	2,429
Total assets	4,405	635	600	1,474	71	-	162	298	7,645
Current liabilities	318	96	100	382	20	-	124	247	1,287
Non-current liabilities	95	-	-	7	-	-	-	3	105
Total liabilities	413	96	100	389	20	-	124	250	1,392
Net operating assets	3,992	539	500	1,085	51	-	38	48	6,253
Consolidation adjustments									
Non-current assets i									(1,120)
Current assets ii									65
Non-current liabilities iii									(70)
Net assets									5,128
As at 31 March 2009									
Non-current assets	3,924	406	11	215	2	3	2	-	4,563
Current assets	455	373	112	1,058	59	79	223	-	2,359
Total assets	4,379	779	123	1,273	61	82	225	-	6,922
Current liabilities	153	92	95	315	23	46	134	-	858
Non-current liabilities	75	-	-	7	2	-	-	-	84
Total liabilities	228	92	95	322	25	46	134	-	942
Net operating assets	4,151	687	28	951	36	36	91	-	5,980
Consolidation adjustments									
Non-current assets i									(984)
Current assets ii									65
Non-current liabilities iii									(66)
Net assets									4,995

(i) Adjustment of goodwill on consolidation including goodwill amortisation write back under IFRS and goodwill impairment.

(ii) Net asset adjustment on the purchase of Inspection Services.

(iii) Provision for deferred taxation under IFRS.

4. AUDITORS' REMUNERATION

	31.3.10	31.3.09
	£	£
Fees payable to the company's auditor for the audit of the annual parent company and consolidated accounts	9,038	6,045
Fees payable to the company's auditor for other services provided to the company and its subsidiaries:		
The audit of the company's subsidiaries under legislative requirements	13,260	14,100
Other services under legislative requirements	429	-
Tax services	7,550	6,750
	30,277	26,895

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

5. TANGIBLE FIXED ASSETS

GROUP	Freehold property £	Improvements to property £	Fixtures and equipment £	Motor vehicles £	Totals £
COST OR VALUATION					
At 1 April 2008	712,000	18,830	252,968	68,674	1,052,472
Additions	74,500	-	14,845	-	89,345
Disposals	-	-	(13,868)	-	(13,868)
Acquisition of subsidiary	-	-	2,080	-	2,080
At 31 March 2009	786,500	18,830	256,025	68,674	1,130,029
Additions	-	-	11,323	-	11,323
Disposals	-	-	-	(12,185)	(12,185)
Acquisition of subsidiary	-	4,887	25,367	-	30,254
At 31 March 2010	786,500	23,717	292,715	56,489	1,159,421
DEPRECIATION					
At 1 April 2008	37,292	4,368	161,721	41,748	245,129
Charge for the year	15,730	1,883	26,832	6,730	51,175
Disposals	-	-	(12,900)	-	(12,900)
At 31 March 2009	53,022	6,251	175,653	48,478	283,404
Charge for the year	15,730	2,495	24,559	4,641	47,425
Disposals	-	-	-	(10,556)	(10,556)
At 31 March 2010	68,752	8,746	200,212	42,563	320,273
NET BOOK VALUE					
At 31 March 2010	717,748	14,971	92,503	13,926	839,148
At 31 March 2009	733,478	12,579	80,372	20,196	846,625
At 1 April 2008	674,708	14,462	91,247	26,926	807,343

The freehold properties were last valued as follows:

31 Rochester Road, Aylesford, Kent open market basis 19 May 2005 Michael Jeffreys Chartered Surveyors
 49 Lampits Hill, Corringham, Essex open market basis 17 May 2005 Messrs. Porter Glenny Chartered Surveyors

Depreciation expenses of £47,425 (2009: £51,175) are included in administrative expenses in the statement of comprehensive income.

No tangible fixed assets are subject to a finance lease.

Lease rentals amounting to £181,239 (2009: £171,203), relating to the lease of buildings and motor vehicles are included in the statement of comprehensive income.

If land and buildings were stated on the historical cost basis, the amounts would be:

	31.3.10 £	31.3.09 £
Cost	464,209	464,209

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 March 2010

5. TANGIBLE FIXED ASSETS – continued

COMPANY	Freehold property £	Improvements to property £	Motor vehicles £	Totals £
COST OR VALUATION				
At 1 April 2008	122,000	15,396	21,275	158,671
Additions	74,500	-	-	74,500
At 31 March 2009	196,500	15,396	21,275	233,171
Additions	-	-	-	-
At 31 March 2010	196,500	15,396	21,275	233,171
DEPRECIATION				
At 1 April 2008	3,660	2,310	4,875	10,845
Charge for the year	3,930	1,539	4,100	9,569
At 31 March 2009	7,590	3,849	8,975	20,414
Charge for the year	3,930	1,540	3,076	8,546
At 31 March 2010	11,520	5,389	12,051	28,960
NET BOOK VALUE				
At 31 March 2010	184,980	10,007	9,224	204,211
At 31 March 2009	188,910	11,547	12,300	212,757

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 March 2010

6. INTANGIBLE FIXED ASSETS

GROUP	Goodwill £
COST	
At 1 April 2008	2,822,821
Additions	213,000
Revisions to deferred consideration	(30,728)
At 31 March 2009	3,005,093
Additions	582,844
Revisions to deferred consideration	(25,000)
At 31 March 2010	3,562,937
AMORTISATION	
At 1 April 2008	237,624
Impairment	33,027
At 31 March 2009	270,651
Impairment	34,818
At 31 March 2010	305,469
NET BOOK VALUE	
At 31 March 2010	3,257,468
At 31 March 2009	2,734,442
At 1 April 2008	2,585,197

The impairment charge is included within administrative expenses within the Group statement of comprehensive income.

COMPANY	Goodwill £
COST	
At 1 April 2008	45,739
Additions	8,000
At 31 March 2009	53,739
Additions	-
At 31 March 2010	53,739
AMORTISATION	
At 1 April 2008	7,361
Charge for the year	2,687
At 31 March 2009	10,048
Charge for the year	2,687
At 31 March 2010	12,735
NET BOOK VALUE	
At 31 March 2010	41,004
At 31 March 2009	43,691

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

6. INTANGIBLE FIXED ASSETS – continued

Impairment Tests for Goodwill

Goodwill is allocated to the Group's cash-generating units, identified according to subsidiary.

The following table shows a summary of the goodwill allocation by subsidiary:

	31.3.10 £	31.3.09 £
Personnel Health & Safety Consultants Limited and dormant subsidiaries	594,952	594,952
RSA Environmental Health Limited	608,130	342,948
Adamson's Laboratory Services Limited	1,221,321	1,221,321
Envex Company Limited	12,806	12,806
In House The Hygiene Management Company Limited	–	300,000
Inspection Services (UK) Limited	180,000	205,000
Quality Leisure Management Limited	582,844	–
	3,200,053	2,677,027
At Company level	57,415	57,415
Total goodwill for Group	3,257,468	2,734,442

When considering impairment, the directors have taken the forecasts prepared for the year ended 31 March 2011 and have assumed that these will continue unchanged over a six-year horizon. A six year period has been used as the board uses this period to assess potential acquisitions. Adoption of a nil growth rate is deemed prudent in the current economic environment, though every avenue is being explored to develop each area of the Group's business to achieve growth by organic means as well as through acquisitions.

The cash flow projections are based on profits before tax and inter group management charges. Cash flows have not been discounted because the effect is not considered to be material given the Group's low gearing and relatively short assessment period. In addition no growth is assumed in preparing the forecasts and thus not discounting is consistent with this approach.

When comparing the current carrying value of goodwill in the consolidated statement of financial position to the supporting forecasts, the coverage is as follows:

Within 1 to 2 years – Envex and PHSC Limited

Within 3 to 4 years – ALS

Within 5 to 6 years – Inspection Services and QLM

More than 6 years – RSA (incorporating In House)

RSA has continued to find trading in the current economic conditions challenging. A pre tax and management charge profit of £6,000 was made in the year ended 31 March 2010 which favourably compares to the £29,000 loss made in the previous year. Costs have been reduced wherever possible and it is anticipated that the merger of the In House and RSA businesses will effect further cost savings and efficiencies. Despite these positive factors, in light of the current economic uncertainty, the directors consider it prudent to impair RSA's goodwill, reducing the investment value by £34,818 to £608,130 which meets the six year earning horizon outlined above.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

7. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Shares in Group Undertakings

COMPANY	31.3.10 £	31.3.09 £
At 1 April	3,667,479	3,365,580
Additions	652,733	301,899
Disposals	(417,632)	-
At 31 March	<u>3,902,580</u>	<u>3,667,479</u>

Investments in group undertakings are stated at cost and include the following subsidiaries:

Name of Company	Country of registration	Proportion of voting rights held	Nature of business
Personnel Health & Safety Consultants Limited	England	100%	Health and safety
Personnel Health & Safety Consultants (Southern) Limited	England	100%	Dormant
Personnel Health & Safety Consultants (Northern) Limited	England	100%	Dormant
Personnel Health & Safety Consultants (Midlands) Limited	England	100%	Dormant
CounterClaim UK Limited	England	100%	Dormant
RSA Environmental Health Limited	England	100%	Health and safety
Adamson's Laboratory Services Limited	England	100%	Health and safety
Envex Company Limited	England	100%	Health and safety
In House The Hygiene Management Company Limited	England	100%	Dormant
Inspection Services (UK) Limited	England	100%	Health and safety
Quality Leisure Management Limited	England	100%	Health and safety

The business and assets of In House were transferred to RSA on 31 March 2010. A profit on disposal of £417,632 was recorded within In House and a loss on disposal of £417,632 was recorded within PHSC plc at company level. These entries cancel out on consolidation.

8. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31.3.10 £	31.3.09 £	31.3.10 £	31.3.09 £
Trade receivables	1,343,430	1,207,938	-	-
Less provision for impairment of trade receivables	-	(2,092)	-	-
Trade receivables - net	<u>1,343,430</u>	<u>1,205,846</u>	<u>-</u>	<u>-</u>
Amounts due from related parties	-	-	590,567	126,220
Other debtors, prepayments and accrued income	437,336	301,579	4,092	935
Deferred tax asset	-	-	5,221	-
Total	<u>1,780,766</u>	<u>1,507,425</u>	<u>599,880</u>	<u>127,155</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

8. TRADE AND OTHER RECEIVABLES – continued

The following entities within the Group received revenues from transactions with a single external customer which amounted to 10% or more of their turnover for the year ended 31 March 2010. ALS was the only entity where this applied to two separate customers.

Entity	Percentage of turnover derived from a single customer
ALS	16%
ALS	14%
Envex	11%
In House	12%
Inspection Services	15%
PHSC Limited	14%

There are no non-current receivables and no adjustment is required to result in a fair value.

At 31 March 2010, there were no impaired trade receivables (2009: £2,092).

The ageing of receivables over the Group's normal credit terms is:

	Group		Company	
	31.3.10 £	31.3.09 £	31.3.10 £	31.3.09 £
Up to 3 months	351,180	348,012	–	–
3–6 months	63,483	123,647	–	–
Over 6 months	65,233	28,096	–	–
	<u>479,896</u>	<u>499,755</u>	<u>–</u>	<u>–</u>

The majority of year end trade receivable over 6 months relate to blue chip organisations including local authorities and universities. Historically the Group has had a good record of collecting debts with few bad debts.

Movements on the Group provision for impairment of trade receivables are as follows:

	Group		Company	
	31.3.10 £	31.3.09 £	31.3.10 £	31.3.09 £
At 1 April	2,092	6,990	–	–
Provision for receivables impairment	10,674	4,862	–	–
Receivables written off during the year as uncollectible	(12,766)	(9,760)	–	–
At 31 March	<u>–</u>	<u>2,092</u>	<u>–</u>	<u>–</u>

The creation and release of the provision for impaired receivables is included in administrative expenses in the statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the year-end is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* for the year ended 31 March 2010

9. INVENTORIES

	Group		Company	
	31.3.10 £	31.3.09 £	31.3.10 £	31.3.09 £
Stocks	<u>2,650</u>	<u>400</u>	<u>—</u>	<u>—</u>

10. CASH AND CASH EQUIVALENTS

The cash balance for the purposes of the cash flow statement were as follows:

	Group		Company	
	31.3.10 £	31.3.09 £	31.3.10 £	31.3.09 £
Cash at bank and in hand	<u>710,328</u>	<u>843,079</u>	<u>245,476</u>	<u>454,559</u>

On 1 October 2008, PHSC plc entered into an unlimited multilateral guarantee with HSBC plc (see note 13).

11. CALLED UP SHARE CAPITAL

	Number of shares	Ordinary shares £	Share premium £	Total £
GROUP AND COMPANY				
Called up, allotted and fully paid				
At 1 April 2008	11,521,019	1,152,101	1,487,873	2,639,974
Share buy backs	<u>(445,000)</u>	<u>(44,500)</u>	<u>—</u>	<u>(44,500)</u>
At 31 March 2009	11,076,019	1,107,601	1,487,873	2,595,474
Share issue	105,954	10,595	9,536	20,131
Share buy backs	<u>(800,000)</u>	<u>(80,000)</u>	<u>—</u>	<u>(80,000)</u>
At 31 March 2010	<u>10,381,973</u>	<u>1,038,196</u>	<u>1,497,409</u>	<u>2,535,605</u>

Warrants

The following warrants to acquire shares in PHSC plc, exercisable at 44p for a period of five years from the date of grant expired during the year without being exercised.

13 December 2004 – 85,227 warrants

22 March 2005 – 20,454 warrants

At the year end the company still had in issue the following warrants on the same terms as above but these have since expired.

4 July 2005 – 57,692 warrants

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

12. TRADE AND OTHER PAYABLES

	Group		Company	
	31.3.10	31.3.09	31.3.10	31.3.09
	£	£	£	£
Non-current				
Accrued expenses	—	2,134	—	—
Current				
Bank loans	—	—	—	8,443
Trade payables	156,933	114,459	4,771	4,393
Amounts due to related parties	—	—	4,378	773
Social security and other taxes	319,072	239,667	25,395	30,972
Other creditors (see note 14)	—	—	250,000	75,000
Accrued expenses	386,954	316,834	37,452	34,401
Total	862,959	670,960	321,996	153,982

13. FINANCIAL LIABILITIES

	Group		Company	
	31.3.10	31.3.09	31.3.10	31.3.09
	£	£	£	£
Non-current				
Bank loans	—	75,422	—	75,422
Current				
Bank loans	—	8,443	—	—
	—	83,865	—	75,422

A £95,000 loan taken out in October 2006 was repaid during the year. The loan term was 15 years expiring in September 2022 and bore interest at 2.10% over the bank's base rate. It was secured by a legal charge over the freehold property, Unit 6 Blotts Barn, Raunds, Northamptonshire.

On 1 October 2008, PHSC plc entered into an unlimited multilateral guarantee with HSBC plc. Each company within the Group operates its own current account, the balance on which is allowed to fluctuate according to trading conditions. Interest is only charged on a net overdrawn balance across the current accounts. The facility is reviewed annually in July.

The guarantee dated 21 November 2007 in favour of D Shun Wah for £50,000 (2009: £50,000) was released during the year on satisfaction of the final payment in respect of the acquisition of In House.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

14. PROVISIONS

GROUP AND COMPANY	Current £	Non-current £	Total £
At 1 April 2008	80,000	50,000	130,000
Paid in year	(50,000)	-	(50,000)
Decrease in consideration on past acquisitions	(30,000)	-	(30,000)
Deferred consideration on acquisitions (*)	25,000	-	25,000
Change from non-current to current	50,000	(50,000)	-
At 31 March 2009	75,000	-	75,000
Decrease in consideration on past acquisitions (*)	(25,000)	-	(25,000)
Paid in year	(50,000)	-	(50,000)
Deferred consideration in respect of QLM (**)	250,000	100,000	350,000
	<u>250,000</u>	<u>100,000</u>	<u>350,000</u>

* As at 31 March 2009 allowance was made for a potential payment relating to excess profits in respect of Inspection Services. The criteria for this payment were not met on the second anniversary of the date of acquisition and the provision was released as at 31 March 2010.

** The QLM sale and purchase agreement provides for £250,000 to be paid on the first anniversary of the acquisition. The £100,000 included in non-current provisions relates to the payment due on the second anniversary. Provided that QLM achieve pre-tax profits that average £100,000 for each of the two years immediately following acquisition, an additional amount of £100,000 will be payable. This figure will be adjusted, pound for pound up or down, according to performance against the target, but is capped at a maximum of £200,000.

15. DEFERRED TAX

Deferred tax asset	Provision revalued properties £	Accelerated capital allowances £	Other short term timing differences £	Total £
At 1 April 2009	-	-	-	-
Credited to Income Statement	-	1,138	4,083	5,221
At 31 March 2010	-	1,138	4,083	5,221
Deferred tax liabilities				
Deferred tax liabilities	Provision revalued properties £	Accelerated capital allowances £	Other short term timing differences £	Total £
At 1 April 2008	69,381	13,222	-	82,603
Credited to Income Statement	-	(4,811)	(4,140)	(8,951)
At 31 March 2009	69,381	8,411	(4,140)	73,652
Debited to Income Statement	-	2,648	4,140	6,788
At 31 March 2010	69,381	11,059	-	80,440

Deferred tax has been provided on the revalued fixed assets at 28% (2009: 28%). At present it is not envisaged that any tax will become payable in the foreseeable future.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

16. OTHER INCOME

	31.3.10 £	31.3.09 £
HMRC on-line filing bonus	525	1,000
Rent received	1,400	-
Miscellaneous income	135	664
	<u>2,060</u>	<u>1,664</u>

17. EXPENSES BY NATURE

	31.3.10 £	31.3.09 £
Cost of sales	812,588	956,571
Staff related costs	2,606,809	2,572,369
Premises costs	76,671	65,534
Professional fees	112,239	118,859
Other expenses	815,159	863,019
Total cost of sales and administrative expenses	<u>4,423,466</u>	<u>4,576,352</u>

18. EMPLOYEES

Staff costs (including executive directors)

	31.3.10 £	31.3.09 £
Wages and salaries	2,306,738	2,298,261
Social security costs	236,948	238,453
Other pension costs	35,060	35,655
	<u>2,578,746</u>	<u>2,572,369</u>

The average monthly number of employees during the year was as follows:

	31.3.10	31.3.09
Directors	8	7
Consultants	55	50
Administrative	20	17
Total	<u>83</u>	<u>74</u>

19. DIRECTORS' REMUNERATION

Directors of PHSC plc only

	31.3.10 £	31.3.09 £
Emoluments	200,192	207,609
Pension contributions to money purchase schemes	6,480	6,480
	<u>206,672</u>	<u>214,089</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

20. FINANCE INCOME AND COSTS

	31.3.10 £	31.3.09 £
Interest expense		
Bank loan interest	(1,037)	(4,786)
Other interest	–	(2,956)
	<u>(1,037)</u>	<u>(7,742)</u>
Finance income		
Interest received	235	31,920
Net finance (expense)/income	<u>(802)</u>	<u>24,178</u>

21. TAXATION

Analysis of tax charge in year

	31.3.10 £	31.3.09 £
Current tax:		
UK corporation tax on profits of the year	157,642	151,756
Adjustments in respect of previous year	1,965	3,048
Total current tax	<u>159,607</u>	<u>154,804</u>
Deferred tax on origination and reversal of timing differences (provided at 28%)	1,567	(8,951)
Adjustments in respect of prior periods	(3,421)	–
Taxation	<u>157,753</u>	<u>145,853</u>

Factors affecting tax charge for year

The tax assessed for the year is higher (2009: higher) than the standard rate of corporation tax in the UK of 28% (2009: 28%).

The differences are explained below:

	31.3.10 £	31.3.09 £
Profit on ordinary activities before tax	<u>499,990</u>	<u>471,745</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	139,997	132,089
Effects of:		
Non qualifying depreciation	3,114	–
Consolidation adjustments not subject to tax	–	10,350
Depreciation in excess of capital allowances claimed	–	4,863
Expenses not deductible for tax purposes	16,206	9,737
Marginal relief	(5,535)	(5,283)
Adjustments in respect of prior periods	1,965	3,048
Deferred tax credit	–	(8,951)
Effect of change in rate of deferred tax	2,006	–
Current tax charge	<u>157,753</u>	<u>145,853</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

22. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	31.3.10	31.3.09
Profit attributable to equity holders of the Group (£)	342,237	325,892
Weighted average number of ordinary shares in issue	10,676,841	11,277,224
Basic earnings per share (pence per share)	3.21p	2.89p

Diluted

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	31.3.10	31.3.09
Profit attributable to equity holders of the Group (£)	342,237	325,892
Weighted average number of ordinary shares in issue (basic weighted average as above, diluted by 137,707 (2009: 163,373) being the weighted average number of warrants in issue)	8,700,800	11,440,597
Diluted earnings per share (pence per share)	3.93p	2.85p

23. DIVIDENDS

The dividends paid in 2009 and 2008 were £94,146 (0.85p per share) and £97,334 (0.85p per share) respectively. A dividend in respect of the year ended 31 March 2010 of 0.90p per share, amounting to a total dividend of £92,484 is to be proposed at the annual general meeting on 9 September 2010. These financial statements do not reflect this dividend payable.

24. COMMITMENTS

Operating lease commitments

The Group leases various offices under non-cancellable operating lease agreements. The leases have varying terms and renewal rights. The Group also leases various motor vehicles under cancellable operating lease agreements. The lease expenditure is charged to the statement of comprehensive income during the year.

The minimum lease payments to which the Group is committed under non-cancellable operating leases for the coming year are:

	31.03.10		31.03.09	
	Land and buildings £	Motor vehicles £	Land and buildings £	Motor vehicles £
Within one year	1,337	23,058	5,640	26,364
Between two and five years	23,356	89,119	-	98,376
Total	24,693	112,177	5,640	124,740

The Group had no capital commitments at the year end.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

25. BUSINESS COMBINATIONS

On 31 December 2009, the Group acquired 100% of the share capital of QLM. The acquired business contributed revenues of £203,185 and profit before taxation of £40,293 to the Group for the period from 1 January 2010 to 31 March 2010. For the year ended 31 March 2010 turnover and profit before taxation were £758,223 and £175,078 respectively. Details of net assets acquired and goodwill are:

	£
Purchase consideration	
– cash paid in respect of goodwill	200,000
– deferred consideration	350,000
– cash paid in respect of net assets	93,223
– consideration in shares in PHSC plc	20,131
Legal costs and stamp duty	14,369
Total purchase consideration	677,723
Fair value of net assets acquired	(94,879)
Goodwill	582,844

The assets and liabilities as at 31 December 2009 arising from the acquisition were:

	Fair value £	Acquiree's carrying amount £
Cash and cash equivalents	57,684	57,684
Plant and equipment	28,598	30,254
Inventories	250	250
WIP	2,300	2,300
Trade and other receivables	233,441	233,441
Trade and other payables	(178,849)	(178,849)
Current corporation tax payable	(46,782)	(46,782)
Deferred tax liabilities	(3,419)	(3,419)
Net assets acquired	93,223	94,879
Purchase consideration settled in cash	293,223	293,223
Cash and cash equivalents in subsidiary acquired	(57,684)	(57,684)
Cash outflow on acquisition	235,539	235,539

26. RELATED PARTY DISCLOSURES

A management charge is levied by PHSC plc to its subsidiary companies to reflect the central services it provides. The charges were as follows:

	31.3.10 £	31.3.09 £
Adamson's Laboratory Services Limited	185,531	207,122
Envex Company Limited	12,000	9,000
In House The Hygiene Management Company Limited	12,000	12,000
Inspection Services (UK) Limited	12,000	–
Personnel Health & Safety Consultants Limited	192,000	192,000
RSA Environmental Health Limited	12,000	42,000
Total	425,531	462,122

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2010

26. RELATED PARTY DISCLOSURES – continued

The inter-company balances between PHSC plc and its subsidiary companies at the year end are summarised below:

	31.3.10 £	31.3.09 £
<i>Trade receivables:</i>		
Adamson's Laboratory Services Limited	45,660	52,908
Envex Company Limited	3,525	2,587
In House The Hygiene Management Company Limited	3,525	3,450
Inspection Services (UK) Limited	3,525	-
Personnel Health & Safety Consultants Limited	56,400	55,200
RSA Environmental Health Limited	3,525	12,075
<i>Loans to related parties:</i>		
In House The Hygiene Management Company Limited	470,519	-
Inspection Services (UK) Limited	3,888	-
<i>Amounts due to related parties:</i>		
Adamson's Laboratory Services Limited	(386)	-
Envex Company Limited	(814)	-
In House The Hygiene Management Company Limited	-	-
Personnel Health & Safety Consultants Limited	(1,110)	(433)
RSA Environmental Health Limited	(2,067)	(340)
Net amount receivable	586,190	125,447

During the year RSA charged In House a consultancy fee of £14,500 in respect of services provided by RSA personnel during the year.

27. ULTIMATE CONTROLLING PARTY

PHSC plc, incorporated in the UK, is the ultimate parent company of the Group. There is no ultimate controlling party, but Mr S A King, Group Chief Executive, holds 29.9% (2009: 29.3%) of the issued share capital of PHSC plc.

28. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	31.3.10 £	31.3.09 £
COMPANY		
Profit for the financial year	504,483	1,470,273
Dividends paid	(89,896)	(97,335)
Issue of shares	20,131	-
Share buy backs	(139,800)	(126,962)
Net addition to shareholders' funds	294,918	1,245,976
Opening shareholders' funds	4,276,237	3,030,261
Closing shareholders' funds	4,571,155	4,276,237
Equity interests	4,571,155	4,276,237

PHSC plc

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of PHSC plc will be held at 10.00am on Thursday 9 September 2010 at The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR to consider the following resolutions of which resolutions 1 to 5 will be proposed as ordinary resolutions and resolutions 6 and 7 will be proposed as special resolutions. Special notice has been received of the intention to propose resolution 5 as an ordinary resolution.

1. To receive the annual report and audited accounts for the year ended 31 March 2010.
2. To declare a final dividend of 0.90p per share.
3. To re-elect Ms N C Coote as a director.
4. To appoint Horwath Clark Whitehill LLP as auditors to the company to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the directors to determine their remuneration.
5. THAT
 - (a) in substitution for any existing such authority, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the company to allot relevant securities (within the meaning of the said section 551) up to a total nominal amount of £346,065 during the period commencing on the date of the passing of this resolution and expiring on 8 September 2015, but so that the authority shall allow the company to make before the expiry of this authority offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities under such offers or agreements.
6. THAT, subject to and conditional upon the passing as an ordinary resolution of resolution number 5 set out in the notice of this meeting the directors be empowered under section 570 of the Companies Act 2006 (the "Act") to allot equity securities (as defined in section 560 of the Act) for cash; under the authority conferred by resolution 5 above as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and
 - (b) the allotment (otherwise than under sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £207,639.

such power to expire at the conclusion of the annual general meeting of the company in 2011 or, if earlier, at the close of business on 8 December 2011, unless such power is varied, revoked or renewed prior to such time by the company in general meeting by special resolution; except that the company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities under such offers or agreements.

PHSC plc

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

7. THAT, the company be generally and unconditionally authorised to make market purchases (as defined in the Companies Act 2006) of ordinary shares of 10 pence each in the capital of the company ("ordinary shares") on such terms and in such manner as the directors may from time to time determine, provided that:
- (a) the maximum number of ordinary shares authorised to be purchased shall be 1,557,295;
 - (b) the minimum price which may be paid for an ordinary share is 10 pence;
 - (c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;
 - (d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the company;
 - (e) the authority conferred by this resolution shall expire at the conclusion of the annual general meeting of the company in 2011 or, if earlier, at the close of business on 8 December 2011, unless such authority is varied, revoked or renewed prior to such time by the company in general meeting by special resolution; and
 - (f) the company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

By order of the board

L E Young
Secretary

3 August 2010

Registered Office:
The Old Church
31 Rochester Road
Aylesford
Kent ME20 7PR

Notes

1. Shareholders, their duly appointed representatives or proxies are entitled to attend, speak and vote at the AGM. A shareholder can appoint the Chairman of the meeting or anyone else as their proxy and their proxy need not be a member of the company. A shareholder may appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to different ordinary shares. To appoint more than one proxy, the proxy form should be photocopied and completed for each proxy holder. The proxy holder's name should be written on the proxy form together with the number of shares in relation to which the proxy is authorised to act. The box on the proxy form must also be ticked to indicate that the proxy instruction is one of multiple instructions being given. All proxy forms must be signed and, to be effective, must be lodged with the company secretary so as to arrive not later than 10.00am on Tuesday 7 September 2010.
2. The return of a completed proxy form will not prevent a shareholder attending the AGM and voting in person if they wish to do so.
3. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders entered in the register of members of the company as at 6:00pm on 7 September 2010 or, if the meeting is adjourned, in the register of members at 6:00pm two days before the adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after those times, shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting or at any adjournment.

PHSC plc

Proxy form for use by holders of ordinary shares in PHSC plc at the Annual General Meeting (AGM) to be held on Thursday 9 September 2010

Please read carefully the notice of meeting, the accompanying notes and the explanation of the business to be transacted at the AGM (contained in the directors' report) before completing this form.

As a member of PHSC plc you have the right to attend, speak at and vote at the AGM. If you cannot or do not wish to attend the AGM but still want to vote you can appoint someone to attend the AGM and vote on your behalf. That person is known as a "proxy". You can use the proxy form to appoint the Chairman of the meeting or someone else, as your proxy. Your proxy does not have to be a member of the company.

I/We (FULL NAME IN BLOCK CAPITALS)

being a member(s) of PHSC plc, appoint the Chairman of the meeting or

..... (see note 1) as my/our proxy to attend and, on a poll, to vote for me/us and on my/our behalf as indicated below at the AGM and at any adjournment (see notes 2, 3 and 4).

Please clearly mark the boxes below to instruct your proxy how to vote.

RESOLUTIONS	FOR	AGAINST	VOTE WITHHELD	AT DISCRETION
1. To receive the report and accounts	☐	☐	☐	☐
2. To declare a final dividend	☐	☐	☐	☐
3. To re-elect N C Coote as a director	☐	☐	☐	☐
4. To appoint Horwath Clark Whitehill as auditors and to authorise the directors to settle their fees	☐	☐	☐	☐
5. To authorise the directors to allot shares	☐	☐	☐	☐
6. To disapply pre-emption rights	☐	☐	☐	☐
7. To authorise share buy backs	☐	☐	☐	☐

Signature(s) (see note 5) Date

Notes:

1. If you wish to appoint as a proxy someone other than the Chairman of the meeting, please delete the words "The Chairman of the meeting" and insert the name of the other person (who need not be a member of the company). All alterations made to the proxy form must be initialled by the signatory.
2. The completion and return of the proxy form will not prevent you from attending the AGM and voting in person should you subsequently decide to do so.
3. If you wish your proxy to cast all of your votes for or against a resolution you should insert an "X" in the appropriate box. If you wish your proxy to cast only some votes for and some against insert the relevant number of shares in the appropriate box. In the absence of instructions your proxy may vote or abstain from voting as they think fit on the specified resolutions, and, unless instructed otherwise, may also vote or abstain from voting as they think fit on any other business (including on a resolution to amend a resolution, to propose a new resolution or to adjourn the meeting) which may properly come before the meeting.
4. The "Vote Withheld" option is provided so that you can instruct your proxy to abstain from voting on a particular resolution. A "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes "for" or "against" a resolution. The "At Discretion" option is provided so that you can give discretion to your proxy to vote or abstain from voting on a particular resolution as they think fit.
5. The proxy form must be signed by the shareholder or their attorney. Where the shareholder is a corporation the signature must be under seal or that of a duly authorised representative. In the case of joint holders, any one may sign the form. The vote of the senior joint holder (whether in person or by proxy) will be taken to the exclusion of all others, seniority being determined by the order in which the names appear in the register of members for the joint shareholding.
6. To be valid, this proxy form and any power of attorney or other authority under which it is signed or a certified copy of such authority, must be deposited with the Company Secretary, The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR no later than 48 hours before the time of the AGM or any adjournment.

