

MANAGING DIRECTOR'S STATEMENT

for the year ended 31 March 2007

Highlights:

- ! Pre-tax profits (net of goodwill) up from £411,000 to £634,000
- ! Earnings per share rise from 2.6p to 3.67p
- ! Group revenues increased to £4.65m from £3.70m
- ! Proposed dividend raised to 0.80p per Ordinary Share (2006: 0.75p)
- ! One subsidiary acquired and another disposed of in the period

I report on a very encouraging financial performance of the company over the year, and comment on some of the activities that have taken place during that period and prospects for the future.

In January 2007 we disposed of our Health and Safety Click Limited subsidiary for reasons outlined later on in this statement. This resulted in an (exceptional) charge of £34,000. Shortly thereafter we acquired Envex Company Limited. Reference to the acquisition and disposal is made later in this statement.

This leaves the Group with four trading subsidiaries, through which we offer a wide range of consultancy and advisory services. Geographically our offices are based in Kent, Essex, Northamptonshire and Berkshire.

We purchased additional premises for Adamson's Laboratory Service Limited (ALS) at Raunds in Northamptonshire, adjacent to the existing offices leased by RSA Environmental Health Limited (RSA). The new premises have been refurbished and laboratory facilities have been installed. This leaves ALS well placed to expand its activities from the company's traditional south-east catchment area into the Midlands and beyond.

During the year, ALS were pleased to announce a contract that included work to an initial value of approximately £375,000, rising to a potential total fee income exceeding £750,000, over a three-year period at the Shell Centre in London. Separately, ALS was awarded a contract valued at £105,000 to carry out asbestos surveying at a top London hotel.

RSA continued to win work from local authorities, with notable works including a contract valued at £32,000 for London Borough of Tower Hamlets. London Borough of Bromley has commissioned the company to carry out a survey related to the delivery, provision, preparation and consumption of school meals in a project worth £67,800 in revenues.

Our subsidiary Personnel Health & Safety Consultants Ltd was commissioned to undertake an auditing programme across Newsquest Media Group's print sites and offices, worth approximately £70,000 over a 12-month period.

Further information on the activities of each operating subsidiary will be contained within the Annual Report and Accounts to be sent to shareholders in due course and which will be available during normal working hours from the offices of Ruegg & Co Limited, 39 Cheval Place, London SW7 1EW. This information will also be accessible on our corporate website at www.phsc.plc.uk

Acquisition and Disposal

The Group acquired Envex Company Limited (Envex) in January 2007 for an initial consideration of £35,000. There will be further payments of up to £37,000 on each of the first and second anniversaries funded by profits generated in those periods. In the year before acquisition, Envex had revenues of £238,000 and a pre-tax profit of £7,150. Envex provides general health and safety consultancy and training service to clients in Berkshire and the surrounding areas. In addition, it delivers the Management of Risk and Uncertainty training course for the Institute of Risk Management.

In January 2007 we disposed of Health and Safety Click Limited (HSCL). Originally acquired in August 2005, that company is now in the hands of its Managing Director. As explained in last year's annual report, acquiring HSCL was a speculative venture for PHSC plc in an area of business where the Group had no representation. HSCL delivers a low cost health and safety protection and advisory service via a web-based system. Although the concept remained an attractive one, the Board took the view that shareholders' best interests would be served by concentrating our energies on companies that were more established and cash generative. The terms of the disposal provide that PHSC plc will be entitled to 33% of any profits that are generated by HSCL in the next twelve months, and 25% of any profits in the twelve months thereafter. HSCL made a trading loss of £30,000 in the nine months prior to disposal.

PHSC plc is currently involved in discussions with two companies that would be attractive acquisition targets, and will report on progress in due course.

Institutional Investment

Following the appointment of Hichens, Harrison & Co. plc as brokers to the Group in January 2007, we placed 1,886,792 new ordinary shares at 53p per share with institutional investors. This raised £1,000,000 for the Company before expenses. We are pleased to welcome, in particular, financial investment from Unicorn and Framlington as this will assist in improving the profile of PHSC plc within the investor community. Between the dates of the new issue and the publication of this statement, the mid-price of our ordinary shares has risen from 52.5p to 54.5p per share.

Corporate Governance

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

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

Performance by Trading Subsidiaries

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

Personnel Health and Safety Consultants Limited

Sales of £1.12 million, yielding a profit of £528,000.

In the previous year there were sales of £1.22 million and a profit of £337,000.

RSA Environmental Health Limited

Sales of £966,000, yielding a profit of £68,000.

In the previous year there were sales of £788,000 and a profit of £110,000.

Adamson's Laboratory Services Limited

Sales of £2.44m, yielding a profit of £542,000 including a Work in Progress uplift of £45,000.

Sales for the 9½ months post-acquisition (17.6.05 – 31.03.06) were £1.6 million, yielding a profit of £283,000.

Health & Safety Click Limited

Invoiced sales prior to disposal of £60,000 leading to a loss of £24,000.

For the period 17.8.05 to 31.03.06 there were sales of £86,000, resulting in a pre-tax loss of £26,000.

Envex Company Limited

Invoiced sales since acquisition on 09.01.07 were £55,000, resulting in a profit of £3,000.

Dividend

The Board is proposing a final dividend of 0.80p per ordinary share to be paid on 21 September 2007 to shareholders on the register as at 24 August 2007.

Prospects

The Board continues to believe that there are good trading prospects within the health, safety and environmental consultancy marketplace and we look forward to another successful and profitable year. We will endeavour to make at least one major acquisition during the period, ensuring that any new subsidiary is earnings-enhancing.

Trading in the first two months of 2007/08 generated Group revenues of £725,000 (2006/07: £698,000).

AGM

The Annual General Meeting will be held on 13 September 2007 at The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR at 10:00am.

Stephen King, Managing Director

Group profit and loss account for the year ended 31st March 2007

	2007 £'000	2006 £'000
Turnover		
Continuing operations – existing	4,534	2,012
Continuing operations – acquired	55	1,692
Discontinued operations	<u>60</u>	<u>-</u>
	4,649	3,704
Cost of sales		
Continuing operations – existing	2,274	1,010
Continuing operations – acquired	32	784
Discontinued operations	<u>6</u>	<u>-</u>
	2,312	1,794
Gross profit	2,337	1,910
Administrative expenses	(1,683)	(1,515)
Other operating income	<u>2</u>	<u>30</u>
	(1,681)	(1,485)
Operating profit		
Continuing operations – existing	676	259
Continuing operations – acquired	3	166
Discontinued operations	<u>(23)</u>	<u>-</u>
	656	425
Interest receivable	10	21
Interest payable	(32)	(35)
Profit on ordinary activities before taxation	634	411
Loss on sale of discontinued operation	(34)	-
Tax charge on profit on ordinary activities	(239)	(163)
Retained profit on ordinary activities after taxation for the financial period	<u>361</u>	<u>248</u>
Earnings per ordinary share	3.67p	2.60p
Diluted earnings per ordinary share	3.61p	2.56p

**Group balance sheet
for the year ended 31st March 2007**

	2007 £'000	2006 £'000
Fixed assets		
Intangible assets	2,140	2,280
Tangible assets	817	720
Total fixed assets	<u>2,957</u>	<u>3,000</u>
Current assets		
Stocks	389	297
Debtors	951	689
Cash at bank and in hand	1,469	487
	<u>2,809</u>	<u>1,473</u>
Creditors:		
Amounts falling due within one year	<u>(968)</u>	<u>(750)</u>
Net current assets	<u>1,841</u>	<u>723</u>
Total assets less current liabilities	4,798	3,723
Creditors:		
Amounts falling due after more than one year	(287)	(417)
Provisions for liabilities and charges:		
Deferred taxation	(13)	(13)
Net assets	<u><u>4,498</u></u>	<u><u>3,293</u></u>
Capital and reserves		
Called up share capital	1,165	983
Share premium accounts	1,464	728
Revaluation reserve	203	206
Profit and loss account	1,666	1,376
	<u><u>4,498</u></u>	<u><u>3,293</u></u>

**Group statement of total recognised
gains and losses
for the year ended 31st March 2007**

	2007	2006
	£'000	£'000
Profit for the financial year –attributable to the shareholders of the parent company	353	248
Unrealised surplus on revaluation of properties	-	105
Total gain recognised since 31st March 2006	<u>353</u>	<u>353</u>

Group cash flow statement for the year ended 31st March 2007

	2007 £'000	2006 £'000
Net cash inflow from operating activities	629	631
Returns on investments and servicing of finance	(22)	(13)
Taxation	(185)	(222)
Capital expenditure	(159)	(2)
Acquisitions and disposals	(129)	(1,345)
Equity dividends paid	(74)	-
Net cash inflow/(outflow) before financing	<u>60</u>	(951)
Financing	<u>922</u>	<u>630</u>
Increase/(decrease) in cash in period	<u>982</u>	<u>(321)</u>
Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the period	982	(321)
Cash inflow from increase in debt	(3)	(285)
Loans transferred with disposal of subsidiaries	<u>45</u>	<u>(125)</u>
Change in net debt resulting from cash flows	1,024	(731)
Net funds at beginning of period	<u>75</u>	<u>806</u>
Net funds at end of period	<u>1,099</u>	<u>75</u>
Reconciliation of operating profit to operating cash flow		
Operating profit	656	425
Depreciation/amortisation	182	216
Loss on disposal fixed assets	3	-
Increase in stock and WIP	(92)	(95)
(Increase)/decrease in debtors	(266)	93
Increase/(decrease) in creditors	146	(8)
Net cash inflow from operating activities	<u>629</u>	<u>631</u>
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in period	982	(321)
Net cash outflow/(inflow) from bank overdrafts	1	(1)
Net cash inflow from bank loans	(21)	(349)
Net cash outflow/(inflow) from other loans	62	(62)
Cash outflow in respect of hire purchase	<u>-</u>	<u>2</u>
Change in net debt	<u>1,024</u>	<u>(731)</u>

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