

Annual Report
2017



Adamson's Laboratory Services



Innovative Security Solutions



Health, Safety & Risk Consultants



In House The Hygiene Management Company



Inspection Services (U.K.)



Personnel Health & Safety Consultants



RSA Environmental Health



SG Systems (UK)

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for the year ended 31 March 2017

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COMPANY INFORMATION

for the year ended 31 March 2017

DIRECTORS:	S A King N C Coote G N Webb MBE L E Young
SECRETARY:	Lorraine Young Company Secretaries Limited
REGISTERED OFFICE & BUSINESS ADDRESS:	The Old Church 31 Rochester Road Aylesford Kent ME20 7PR
REGISTERED NUMBER:	4121793 (England and Wales)
AUDITOR:	Crowe Clark Whitehill LLP Chartered Accountants & Registered Auditor 10 Palace Avenue Maidstone Kent ME15 6NF
SOLICITORS:	Gullands 16 Mill Street Maidstone Kent ME15 6XT
REGISTRARS:	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
NOMINATED ADVISORS:	Northland Capital Partners Limited 60 Gresham Street 4th Floor London EC2V 7BB
NOMINATED BROKERS:	Beaufort Securities Limited 63 St Mary Axe London EC3A 8AA

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STRATEGIC REPORT

for the year ended 31 March 2017

HIGHLIGHTS

- Underlying EBITDA* loss of £0.1m, down from a profit of £0.368m last year
- Group revenue rose to £7.16m compared with £7.04m last year
- Cash reserves of £0.207m at year end compared to £0.256m last year
- Write-down of £0.625m (compared to £0.609m last year) due to impaired goodwill
- Group net assets fell to £5.52m from £6.09m after goodwill impairment
- Loss per share of 4.92p compared with last year's loss per share of 3.23p
- Loss after tax of £0.691m compared with a loss of £0.414m last year
- No final dividend proposed but interim dividend may be considered if progress continues

* Underlying EBITDA is calculated as earnings before interest, tax, depreciation, amortisation, acquisition costs and fair value movements on contingent consideration.

	31.3.17	31.3.16
Profit before tax	(720,693)	(337,723)
Less: interest received	(471)	(1,052)
Add: interest paid	2,117	8
Add: depreciation	44,089	47,712
Add: impairment ALS goodwill	625,191	608,936
Acquisition costs	–	50,000
Fair value movement on contingent consideration	(50,000)	–
Underlying EBITDA	<u>(99,767)</u>	<u>367,881</u>

OPERATIONAL HIGHLIGHTS

- 56% of revenues were in security related technology services compared with 40% last year
- Ongoing rationalisation and cost reduction programme

I present my review of the Group's performance over the year, and provide an update to shareholders on the improving picture emerging over recent months.

KEY DEVELOPMENTS AND OUTLOOK

PHSC plc, through its trading subsidiaries, is a leading provider of health, safety, hygiene and environmental consultancy services and security solutions to the public and private sectors. From the time of incorporation and up until the end of the 2015-16 financial year, the majority of the Group's revenue had always been generated by its health and safety businesses. In 2016-17, for the first time in the Group's history, more revenues arose from security-related technology revenues in the form of installations, consumables and services than from health and safety services.

The legacy health and safety businesses continue to bring valuable income to the Group. Education, leisure, public transport and the care sector represent a large proportion of the clients to whom health and safety consultancy and training is provided. A wide range of general commercial and industrial organisations complete the client portfolio. In addition, the Group carries out statutory examination of lifting equipment, pressure systems and other plant and machinery via insurance brokers or directly for clients.

Our Scottish-based subsidiary specialising in quality systems management goes from strength to strength and further commentary is given later in this report. Conversely, our subsidiary engaged in asbestos management solutions has continued to encounter challenging market conditions and there is ongoing action to eliminate the losses arising there.

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STRATEGIC REPORT *(continued)*

for the year ended 31 March 2017

In recognition of the need to reduce reliance on traditional health and safety businesses, the Group moved into the security technology sector in 2012. This process continued with two further acquisitions in December 2015. The larger of those acquisitions, SG Systems (UK) Limited (SG), involved a two-year earn-out period whereby part of the consideration was based on performance. Due to this provision the company was restricted in the steps that could be taken in terms of integrating the businesses but agreement has recently been reached with the sellers that allows this process to commence. This is expected to result in savings where roles and functions can be combined, and economies of scale can be better exploited. This will enable us to bring forward the commitment given in last year's report where we stated that, after the earn-out timetable had been completed, we would formally consolidate B to B Links Limited and SG into a security division.

We also stated that in due course we would look to form a safety division to run parallel with the security division. This remains our strategy. The goodwill associated with Adamson's Laboratory Services Limited (ALS) was fully impaired during the year as a result of an impairment review.

Acquisition payments

Under the terms of the acquisition of SG, a cash payment of £200,000 fell due on the first anniversary of the purchase, in December 2016. This amount has been paid in full. A final payment becomes due in December 2017 and under the terms of the sale this could have been an amount from £25,000 to £375,000 as determined by a formula that relates to performance over the period. Based on the expected results, for the purposes of the accounts, a fair value of £75,000 was initially included in the financial statements. However, the business has not performed in line with the targets that would have triggered a payment of that amount and we are confident that the final payment will be limited to £25,000. This has enabled us to release £50,000 of the initial estimated value back to the income statement.

Net asset value

As at 31 March 2017, the company had consolidated net assets of £5.52m. There were 14,677,257 ordinary shares in issue at that date which equates to a net asset value per share of 38p. The ordinary shares of the company continue to trade at a discount to the net asset value, even after allowing for the goodwill impairment. Nevertheless, a large proportion of the company's assets relate to goodwill associated with acquisitions and this is reviewed annually to make sure that values in the group statement of financial position can be justified. For the second year, we have found it necessary to impair ALS in accordance with requirements of accounting standards. We are writing down the carrying value of that business and this represents a reduction of approximately 11% in the consolidated net assets of the Group. The board is satisfied that all other goodwill valuations can presently be justified.

Outlook

Ongoing political uncertainty and the weaker sterling exchange rate continues to adversely affect the Group, and in particular the security-related subsidiaries that import materials priced in euros or US dollars.

It is encouraging that the Group saw a material improvement in underlying EBITDA in the second half of 2016-17. Our legacy health and safety businesses generally continue to enjoy a large amount of repeat business and have a very loyal client base. Losses at our asbestos-related business have bottomed out and management are seeing stabilisation of prices after a period of heavy discounting. There may be further costs associated with restructuring the business but the board anticipates that the large trading losses are a thing of the past.

Proposed restructuring of our security-related companies into a single division will ultimately result in cost savings. In addition, there continue to be good prospects for increased sales and opportunities for technological innovation of the products supplied. Significant new contracts can take a considerable amount of time to materialise and various trials and talks are underway with a number of existing and prospective clients.

Based on the latest management accounts (unaudited), the Group had total revenues of £1.82m for the first quarter of 2017-18. This is an increase of around 5% on the first three months of last year. Based on those revenues, EBITDA for the first quarter is showing as around £120k. This compares very favourably to the loss of £40k that was reflected over the corresponding period last year.

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STRATEGIC REPORT *(continued)* *for the year ended 31 March 2017*

Aside from the final payment expected to be £25,000 under the terms of the purchase agreement for SG, no other acquisition payments are due and the Group is presently not considering any further acquisitions.

PERFORMANCE BY TRADING SUBSIDIARY

The board looks at the following key performance indicators.

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. Consolidated Group sales for the year increased by 2%; SG contributed a full year of sales adding £1.2m of revenue to the Group but this was offset by a £1m fall in sales within ALS due to strong competition within the sector.

Earnings before interest, taxation, depreciation, amortisation and exceptional costs (underlying EBITDA)

After allowing for exceptional costs, the Group suffered a sizeable fall in EBITDA from a profit of £0.368m to a loss of £0.1m. ALS was the single largest contributor to this fall where EBITDA fell by £0.27m.

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. Between the years ended 31 March 2016 and 2017 the average number of staff employed across the Group fell from 100 to 88 largely pertaining to the release of consultants no longer needed upon expiry of a large contract relating to asbestos management.

Pre-tax profit per subsidiary before Group management charges

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

A review of the activities of each trading subsidiary is provided below. The profit figures stated are before tax and central management charges.

Adamson's Laboratory Services Limited (ALS)

- 2017: sales of £823,200 yielding a loss of £194,600
- 2016: sales of £1,825,600 yielding a profit of £76,800

Competition within the sector continues to adversely affect revenues and has led to a situation where ALS along with several of its peers is trading at a loss. A number of loss-making competitors entered administration during the year.

The business had a very disappointing year with sales materially down and a resulting loss of £194,600. In response, ALS made significant cost reductions in both cost of sales and expenditure to compensate for the loss of revenue and negative margins. As part of the cost reduction, several members of staff were made redundant and the trading loss includes around £30,000 of severance pay.

The company has been supported by the Group and has recently seen some areas for optimism. It continues to win repeat business with blue chip clients and local government and has seen growth in the education sector.

The health and safety department's turnover increased and the volume of occupational hygiene consultancy showed some growth.

ALS has successfully maintained its accreditation with UKAS ISO 17020, 17025, ISO 9001 and ISO14001.

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STRATEGIC REPORT *(continued)* *for the year ended 31 March 2017*

B to B Links Limited (B to B)

- 2017: sales of £2,594,900 yielding a profit of £52,500
- 2016: sales of £2,551,800 yielding a profit of £134,200

During 2017 B to B generated revenues of £2.6m consistent with the previous three years. The majority of sales in 2017 came from national accounts, primarily in the department store, fashion retail, builders' merchants and DIY sectors. Independent retail sales were flat during the year compared with 2016. Non-retail CCTV sales activities contributed £254k to company revenues in 2017, the first full year of integration of the business of Camerascan CCTV Ltd. Profits for the year were below forecast through a combination of lower sales and trade cost increases caused by the depreciation of sterling following the June 2016 EU Referendum. In addition, the company incurred a bad debt of £40k after a client went into administration.

Despite the headwinds faced in 2017 the outlook for B to B remains strong. B to B's retail customer base has performed well during 2017 and existing key accounts all have clear plans to invest in property projects and associated CCTV and security tagging hardware during 2018. Global restructuring of key competitors in both radio frequency and acousto-magnetic security tagging technologies may also provide opportunities to grow market share.

Closer operational links have developed with SG during the year and these will deepen further during 2017-18. Key priorities for 2017-18 are to grow B to B sales by further developing existing accounts, to achieve stronger growth in independent sales, both retail and non-retail and to improve efficiency in technical delivery and stock management.

Inspection Services (UK) Limited (ISL)

- 2017: sales of £227,600 yielding a profit of £44,200
- 2016: sales of £219,600 yielding a profit of £40,300

Health and safety legislation requires employers to ensure that relevant equipment is examined at an appropriate frequency by a competent person to ensure it remains safe to use. Many organisations rely upon external agencies to assist them to comply with their duties in this regard.

The main business of ISL is to carry out statutory examinations and inspections of lifting plant and equipment, and of pressure systems, through contracts placed by insurance brokers. Commissions are paid to brokers for placing this work with ISL. Approximately 75% of revenue is derived through the insurance sector, with the remaining 25% from business placed directly by clients.

ISL's revenues rose by 3.5%, or £7k, from around £220k to £228k over the period. The increase was because the volume of new business outweighed the number of clients who did not renew the service with ISL. Costs rose as a consequence of the delivery of a greater number of services and because sub-contract fees rose in the second half of the year due to a need to cover for the medical-related absence of a member of staff. Despite the higher costs incurred, pre-tax and management charge profit rose to a little over £44k, an improvement of around £3.9k or 10%.

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STRATEGIC REPORT *(continued)* *for the year ended 31 March 2017*

Personnel Health & Safety Consultants Limited (PHSCL)

- 2017: sales of £666,900 yielding a profit of £218,900
- 2016: sales of £703,300 yielding a profit of £276,100

Turnover decreased by around 5% with gross margins down to 59%. Higher staff salaries and the effects of pension auto-enrolment, combined with an inability to pass on our extra costs to clients were responsible for lower profits.

Most of PHSCL's revenue is obtained under a retainer service, with these client's often purchasing additional consultancy or training days.

During the year an agreement was made with our largest client to transfer a consultant from our payroll onto the client's headcount. Although a compensatory payment was received, this has led to a net loss of recurring revenues.

The company continues to be a net provider of resources to other members of the PHSC plc group. Group policy dictates that cross-charges are not generated to reflect this contribution.

QCS International Limited (QCS)

- 2017: sales of £624,000 yielding a profit of £210,800
- 2016: sales of £528,000 yielding a profit of £122,700

In the year ended 31 March 2017, QCS's turnover and operational profit both exceeded the forecast set at the outset of the year. It was hoped that the company would benefit from changes to ISO standards, which experience has shown leads to greater demand for both training and consultancy services. This proved to be the case and the company increased sales significantly in the year, while keeping a close control on costs.

Sales increased by £96k (18%) compared to 2015-16 and corresponding profit before management charge and tax increased by £88k (72%) to £211k. This considerable increase in profit reflects the improved utilisation of assets/resources.

QCS continues to be a leader in the design, marketing and delivery of training courses and consultancy in respect of the ISO standards, which can be seen in the high number of training courses (public and in-house) and new consultancies delivered. QCS is highly regarded within its locale and has a considerable share of the ISO training market for southern and central Scotland.

The changes in 2015 to the standards ISO 9001 and ISO 14001 continue to underpin new sales. This is likely to continue until autumn 2018, by which point transition must be complete. QCS has presented plans to find new markets for 2018 onwards should the demand for services linked to the new standards decline.

QCS decided to retain full approved training partner status with our main professional body, IRCA. During the year IRCA adjusted their relationship with their training partners, causing some of QCS's competitors to decide to leave the group.

QCS continues to demonstrate high levels of customer retention; 70% of consultancy clients were retained while achieving a steady growth of 15% in new clients to the consultancy portfolio.

QCS's medical device consultancy service has been in place for over a year. The related sales were not as high as hoped in the first half of the financial year but new clients have been secured in early 2017. QCS are using their new website and marketing initiatives to focus on generating further work in this area which can be charged at a premium. Concerns are being raised amongst clients about the potential impact of BREXIT in this sector which relies heavily upon EU cooperation in respect of regulations. This uncertainty may generate opportunities as clients seek reassurance and guidance once the new regulatory framework is established.

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STRATEGIC REPORT *(continued)*

for the year ended 31 March 2017

It was hoped that the British standard OHSAS 18001 for health and safety would have been replaced by a new international standard ISO 45001 in 2016-17. This did not happen and the latest indications are that this may not occur until late 2017. This will provide us with an opportunity to assist clients with the transition process, albeit at a lower rate than for work associated with ISO 9001 and ISO 14001.

Quality Leisure Management Limited (QLM)

- 2017: sales of £437,100 yielding a profit of £74,300
- 2016: sales of £506,290 yielding a profit of £95,900

The business continued to develop and diversify in 2016-17 but the company's core business functions will be the focus as QLM continues to adapt to the changing business environment and client base.

QLM saw a 14% fall in turnover from £506,290 in 2015-16 to £437,100 in 2016-17. This was largely due to staffing issues; a significant period of sickness absence in the second quarter and the loss of the equivalent of one full time member of staff in December 2016.

Auditing income declined by 22% from £108,900 in 2015-16 to £84,300 in 2016-17. The number of audits undertaken has decreased and lighter, more general topics or activity specific reviews have taken precedence over QLM Leisuresafe™ audits.

Staffing and subcontractor's costs varied significantly in the latter part of 2016-17 with two part-time consultants retiring and another member of staff leaving the payroll and moving to a sub-contractor role to provide both parties with more flexible working arrangements. Savings and efficiencies should continue to be seen as sub-contractors are increasingly used in 2017-18.

Accident investigation income, although slightly down year on year, plays a significant role in publicly demonstrating QLM's competence and level of expertise. QLM continues to provide expert witness testimony for civil and criminal cases and has been engaged by the Health and Safety Executive, environmental health departments, solicitors and insurance companies in support of swimming, leisure and service industry cases.

Publications generated £6,200 of income in the year ended 31 March 2017. The CIMSPA publications, Risk Assessment Manual and Best Practice Health & Safety Operating Procedures were published later than expected by the Institute and sales suffered accordingly.

QLM continues to update its technology, including website development, server replacement and the utilisation of cloud based systems. This expenditure is essential for the development of the business and to gain efficiencies within it. Investment in this area will continue to be a priority in 2017-18.

RSA Environmental Health Limited (RSA)

- 2017: sales of £374,100 yielding a profit of £65,100
- 2016: sales of £413,100 yielding a profit of £72,900

The principal activities of the company in the year under review were the provision of health and safety consultancy services and training, together with the sale of associated health and safety products. Income has fallen year on year, as the company continues its transition away from the provision of low-margin services to the public sector to higher margin private sector services. The benefit of this strategy is seen in the higher gross profit margins despite lower revenues.

Over the past RSA has focused on adapting the company to one that no longer relies upon the previous strategy that was geared towards Local Authority contracts. This has allowed the business to concentrate its effort on supporting

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STRATEGIC REPORT *(continued)* *for the year ended 31 March 2017*

schools with their management of health and safety via the SafetyMARK service core offering. This area has seen an increase in growth from 2015-16 with the highest turnover achieved since the company moved into the schools market.

Indications show that there is a continuing demand despite cost pressures being placed on the mainstream schools sector. The SafetyMARK service is proving cost effective and is finding favour within its target market. The company seeks further growth through provision of services to multi academy trusts to build on revenues and increase the client base. Several multi-school partnerships have increased the number of schools under contract and this has brought in additional revenues.

The independent schools sector is another area where the company has seen an uplift in clients using the SafetyMARK scheme. Cost pressures are less evident in this sector. The more complex nature of the schools concerned means that generally a higher premium can be commanded. Further marketing and attendance at the Independent Schools Bursars Association conference in May 2017 will aim to increase revenues from this part of the market.

One London borough council has continued to promote SafetyMARK as an alternative safety support service to that previously provided by the local authority. The business has seen modest growth in this area in the past year with the continued provision of audits and support as well as providing health and safety training within the borough. Currently there are 17 schools within the borough signed up to the scheme. Some schools are currently operating with no support and free training seminars were provided to increase awareness of the SafetyMARK brand. This resulted in new enquiries and an additional school signing up.

The continued success of SafetyMARK means that new enquiries from prospective clients are strong and new business is being gained without the existence of an aggressive marketing strategy. The key will now be to ensure that profitability is maximised by using the economies of scale afforded by a larger client base, as well as ensuring that costs are well controlled and standard fees are reviewed, where appropriate.

SG Systems (UK) Limited (SG)

- 2017: sales of £1,414,500 yielding a loss of £113,500 (12 months)
- 2016: sales of £256,700 yielding a loss of £68,900 (3.5 months)

In its first full year since it joined the group, PHSC plc, SG generated sales of £1.4m. Sales were lower than forecast due to a hiatus in store openings and refits from a major grocery customer following its acquisition of another retailer. This, combined with pressure on gross margins caused by the depreciation of sterling following the June 2016 EU referendum, has meant that the company made a loss for the year.

SG's traditional core customer base of national retail chains in the department store, fashion, grocery, stationery and electronics sectors has generally continued to trade well during 2017. The significant efforts made by the SG sales team during 2017 have seen a number of new retail accounts and a number of new product lines being launched in response to customer demand which will provide a strong platform for growth in 2018 and beyond. Sectorally the customer base has also diversified with a series of projects implemented in a range of non-retail sectors, including construction, school libraries, prisons/secure units, tourist attractions and hotels.

During the year closer operational links have developed with B to B and these will deepen further during the 2018 financial year. SG's key priorities for 2018 are to grow sales through the introduction of new products in existing accounts and new accounts and to improve efficiency of stock management and technical delivery.

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STRATEGIC REPORT *(continued)*

for the year ended 31 March 2017

PHSC plc

- 2017: net loss of £501,100 before management charges, exceptional costs and dividends received
- 2016: net loss of £479,600 before management charges, exceptional costs and dividends received

The parent company incurs costs on behalf of the group and does not generate any income. The costs incurred by PHSC plc represent the costs of running an AIM listed group and are consistent with the previous year.

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. 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. In mitigation of these risks, the board has diversified the Group's range of offerings for example, by acquiring B to B, SG and Camerascan and is exploring non-regulatory areas of environmental work to add to the current portfolio of services.

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. Additionally, 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 and the number of training courses commissioned may be affected by moves towards screen-based interactive learning. The subject of IT security is regularly reviewed by the board to ensure that appropriate strategies are in place.

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. The Group and each subsidiary have contingency plans in place in the event of incapacity of key personnel.

Geographical

The Group offers a nationwide service but a number of organisations see benefit in using consultancies that are local to them and internet search engines favour local providers. The acquisitions made, particularly QCS with an office in Scotland, have increased the geographical spread of the Group and assist in mitigating this risk.

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. The Group has internal processes in place to ensure that the licences and accreditations are maintained.

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STRATEGIC REPORT *(continued)*

for the year ended 31 March 2017

GOING CONCERN

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 as the Group has adequate resources to continue in operational existence for the foreseeable future based upon the Group's forecasts and current banking facilities. This can be extended if required subject to the normal caveats. Thus the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

In closing I would like to extend thanks to all our shareholders for their continued support, and to everyone employed across the Group for the hard work and effort that has led to another year of successful performance.

On behalf of the board

Stephen King

Group Chief Executive

10 August 2017

PHSC plc

REPORT OF THE DIRECTORS

for the year ended 31 March 2017

The directors present their report with the audited financial statements of PHSC plc (company and Group) for the year ended 31 March 2017.

DIRECTORS

The directors who held office during the year under review were:

S A King
N C Coote
G N Webb MBE
L E Young

DIVIDENDS

The Board did not declare an interim dividend. A final dividend of £196,295 was paid during the year ended 31 March 2017 (2016: £190,295) in respect of the year ended 31 March 2016. The board is not proposing a final dividend but an interim dividend may be considered if progress continues.

PROVISION OF INFORMATION TO AUDITOR

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 auditor is 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 auditor is aware of that information.

FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a variety of financial risks which are outlined in note 1 to the financial statements on page 27.

SHARE CAPITAL

On 19 August 2016 1,505,909 new ordinary shares of 10p each were issued at a price of 22p per share by way of a placing. The placing shares represent 10.8% of the enlarged issued ordinary shares of the company. There were no share buy-backs during the year.

ENVIRONMENTAL, SOCIAL AND COMMUNITY ISSUES

The directors are aware of the impact of the Group's business on the environment but believe this to be minimal due to the nature of its operations. Details of the Group's involvement in the community can be found on the company's website (www.phsc.plc.uk).

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. The Group aims to improve the performance of the organisation through the development of its employees. Their involvement is encouraged by means of team meetings and briefings and bonuses are paid on the basis of individual performance and results at subsidiary and Group level. The Group is committed to equality of employment and its policies reflect a disregard of factors such as disability in the selection and development of employees.

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REPORT OF THE DIRECTORS *(continued)*

for the year ended 31 March 2017

SUBSTANTIAL SHAREHOLDINGS

At 3 August 2017, 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
N C Coote	3,144,342	21.42
S A King	3,115,000	21.22
Unicorn Asset Management Limited and Unicorn AIM VCT II plc	849,057	5.78
James Faulkner	455,000	3.10
Downing LLP held via Downing ONE VCT	441,509	3.00

ANNUAL GENERAL MEETING

This year's AGM will be held at 10.00 am on Monday 11 September 2017 at The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR. The notice of meeting is set out on pages 60 to 62 of this document and a form of proxy is on page 63.

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

Report and accounts (Resolution 1)

It is a requirement of company law that the annual report and accounts is laid before shareholders in general meeting.

Re-election of director (Resolution 2)

Under the company's articles of association, Graham Webb retires by rotation and offers himself for re-election.

Appointment of auditor (Resolution 3)

A resolution for the reappointment of Crowe Clark Whitehill LLP as the company's auditor will be put to the AGM together with the usual practice of authorising the directors to determine the auditor's fees.

Authority of directors to allot shares (Resolutions 4 and 5)

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 4 gives the directors the necessary authority until the earlier of next year's AGM or 30 September 2018 to allot securities up to an aggregate nominal amount of £489,242.

Resolution 5 empowers the directors, until the earlier of next year's AGM or 30 September 2018 to allot such securities for cash otherwise than on a pro-rata basis to existing shareholders, up to a maximum of 2,935,451 ordinary shares of 10p each, equivalent to 20% of the issued share capital as at 3 August 2017. 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 2017

Authority for the company to purchase its own shares (Resolution 6)

Resolution 6 authorises the company, until the earlier of next year's AGM or 30 September 2018 to purchase in the market up to a maximum of 2,201,589 ordinary shares (equivalent to approximately 15% of the issued share capital of the company as at 3 August 2017) for cancellation at a minimum price of 10 pence per share and a maximum price per share of an amount equal to 105 percent 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 (excluding non-working days) 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.

Subsequent events and future developments

There have been no significant events affecting the company since the year end.

Future developments have been discussed in the strategic report.

On behalf of the board

Lorraine Young Company Secretaries Limited

Secretary

10 August 2017

PHSC plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 March 2017

The directors are responsible for preparing the strategic report, the directors' report and the Group and parent company financial statements in accordance with applicable law and regulations.

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

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 Group and parent company 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 judgements 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 strategic report, the report of the directors and other information included in the annual report and financial statements is prepared in accordance with applicable law and regulations in the UK.

The maintenance and integrity of the PHSC plc website is the responsibility of the directors; the work carried out by the auditor does not involve the consideration of these matters and, accordingly, the auditor accepts 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.

PHSC plc

CORPORATE GOVERNANCE STATEMENT

for the year ended 31 March 2017

The directors support high standards of corporate governance as set out in the UK Corporate Governance Code (the Code) and consider that the company's governance arrangements are appropriate to its size and stage of development. As the company's shares are traded on AIM, it is not required to comply with the Code.

LEADERSHIP

The board is made up of four directors, two of whom are executive, Stephen King (group chief executive) and Nicola Coote (deputy group chief executive) and two of whom are non-executive, Graham Webb MBE and Lorraine Young. Stephen King acts as chairman and chief executive. Since the board is comprised of only four members, the directors are of the view that there is no need to split these roles and for the same reason they have not appointed a senior independent director. Graham Webb has served fourteen years. The board is of the view that Graham Webb retains his independent judgement and continues to make a valuable contribution to the board. Lorraine Young was appointed on 1 April 2016. Biographical details of the directors can be found on the company's website (www.phsc.plc.uk).

The directors have a duty to promote the success of the company and to this end the board has clearly defined responsibilities set out in a formal schedule of matters reserved to it. This was reviewed and updated during the year and includes setting the company's strategy; approving business plans; approving the annual report and accounts and shareholder communications; ensuring a sound system of internal controls and risk management; approving major contracts; determining the remuneration policy (on the recommendation of the remuneration committee); and making appointments to the board and other offices. Health and safety within the Group is considered at every board meeting. The board also considers the risks which face the Group which might impact on the achievement of its strategy and determines which ones are acceptable. Mitigations are put in place where practicable.

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.

EFFECTIVENESS

The board meets at least five times each year and the committees meet twice each year (or more often if required). During the year there was full attendance at all board and committee meetings. Monthly management accounts are circulated to all directors. All directors have access to advice from the company secretary.

COMMITTEES

The board has delegated certain matters to committees. There is an audit committee and a remuneration committee. The terms of reference of these committees were reviewed and updated during the year and are available on request. 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.

The audit committee comprises Lorraine Young (chair) and Graham Webb. During the year it has considered internal controls and risk management issues which are relevant to the Group. A new risk register has been set up which will be kept under review as the Group's strategy evolves. 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.

There is an annual audit planning meeting between the external auditor and the committee chair as well as a formal meeting with the auditor and the committee at the time of the final results. The committee considers the continuing independence of the external auditor and notes the level of non-audit fees to ensure they remain at an acceptable level. 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.

PHSC plc

CORPORATE GOVERNANCE STATEMENT *(continued)*

for the year ended 31 March 2017

The remuneration committee comprises Graham Webb (chair) and Lorraine Young. 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. It also hears representations on any proposed general pay increases across Group subsidiaries, and is responsible for approving those (or otherwise).

DIRECTORS' REMUNERATION

The remuneration of the executive directors was as follows:

	Salary £	Bonus £	Year ended 31.3.17			Post employment benefits Pension £	Total £	Year ended 31.3.16 Total £
			Waiver £	Short term employee benefits Pension salary Sacrifice £	Benefits £			
S A King	90,000	2,203	(3,289)	(3,300)	2,167	7,470	95,251	91,381
N C Coote	70,000	2,203	(700)	(4,950)	7,814	8,168	82,535	85,820

Stephen King's benefits relate to health insurance and Nicola Coote's to a company car and health insurance. Both directors opted to take their bonus as a pension contribution.

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

	Year ended 31.3.17 £	Year ended 31.3.16 £
M J L Miller (resigned)	–	14,000
G N Webb	14,000	14,000
L E Young	14,000	–

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.

RELATIONS WITH SHAREHOLDERS

The annual report is sent to all shareholders and, on request, to other parties who have an interest in the Group's performance. The company endeavours to send the notice of AGM and supporting papers to shareholders at least 20 working days before the meeting and responds promptly to any enquiries received from shareholders. The AGM provides the board with the opportunity to meet and engage directly with shareholders and all shareholders have the opportunity to put forward questions on performance and operations as well as other related topics at the AGM. Stephen 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 AUDITOR'S REPORT TO THE SHAREHOLDERS OF PHSC plc

for the year ended 31 March 2017



We have audited the financial statements of PHSC plc for the year ended 31 March 2017 which comprise the group statement of financial position, the group statement of comprehensive income, the group cash flow statement, the group statement of changes in equity, the parent statement of financial position, the parent cash flow statement, parent statement of changes in equity and related notes numbered 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 members those matters we are required to state to them in an auditor's 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 members 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 and express an opinion on 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.

In addition, we read all the financial and non-financial information in the strategic report, the directors' report and the corporate governance statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2017 and of the group's loss 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 IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' Report and Strategic report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report:

- 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.

Darren Rigden (*Senior Statutory Auditor*)

for and on behalf of Crowe Clark Whitehill LLP

10 Palace Avenue, Maidstone, Kent ME15 6NF

10 August 2017

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Note	31.3.17 £	31.3.16 £
Non-Current Assets			
Property, plant and equipment	5	626,224	675,345
Goodwill	6	3,878,463	4,503,654
Deferred tax asset	14	21,693	497
		4,526,380	5,179,496
Current Assets			
Inventories	8	487,367	416,371
Trade and other receivables	7	1,447,493	1,894,875
Cash and cash equivalents	9	206,719	256,558
		2,141,579	2,567,804
Total Assets		6,667,959	7,747,300
Current Liabilities			
Trade and other payables	11	1,064,358	1,221,599
Current corporation tax payable		–	103,403
Deferred consideration	13	–	200,000
Contingent consideration	13	25,000	–
		1,089,358	1,525,002
Non-Current Liabilities			
Deferred tax liabilities	14	57,800	62,755
Contingent consideration	13	–	75,000
		57,800	137,755
Total Liabilities		1,147,158	1,662,757
Net Assets		5,520,801	6,084,543
Capital and reserves attributable to equity holders of the Group			
Called up share capital	10	1,467,726	1,308,634
Share premium account	10	1,916,017	1,751,358
Capital redemption reserve		143,628	143,628
Merger relief reserve		133,836	133,836
Retained earnings		1,859,594	2,747,087
		5,520,801	6,084,543

The financial statements were approved and authorised for issue by the board of directors on 10 August 2017, and were signed on its behalf by:

S A King *Director*

Accounting policies and notes on pages 23 to 44 form part of these financial statements

PHSC plc

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2017

	Note	31.3.17 £	31.3.16 £
Continuing operations:			
Revenue		7,162,299	7,004,340
Cost of sales	15	<u>(3,988,623)</u>	<u>(3,803,240)</u>
Gross profit		3,173,676	3,201,100
Administrative expenses	15	<u>(3,319,092)</u>	<u>(2,930,931)</u>
Goodwill impairment	25	<u>(625,191)</u>	<u>(608,936)</u>
Other income		1,560	-
Loss from operations		<u>(769,047)</u>	<u>(338,767)</u>
Fair value movement on contingent consideration	25	50,000	-
Finance income	18	471	1,052
Finance costs	18	<u>(2,117)</u>	<u>(8)</u>
Loss before taxation		<u>(720,693)</u>	<u>(337,723)</u>
Corporation tax credit/(expense)	19	<u>29,495</u>	<u>(75,920)</u>
Loss for the year after tax attributable to owners of the parent		<u>(691,198)</u>	<u>(413,643)</u>
Other comprehensive income		-	-
Total comprehensive income attributable to owners of the parent		<u>(691,198)</u>	<u>(413,643)</u>
Basic and diluted Earnings per Share from continuing operations	20	(4.92)p	(3.23)p

Accounting policies and notes on pages 23 to 44 form part of these financial statements

PHSC plc

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

	Share Capital £	Share Premium £	Merger Relief Reserve £	Capital Redemption Reserve £	Retained Earnings £	Total £
Balance at 1 April 2015	1,268,634	1,751,358	79,836	143,628	3,355,410	6,598,866
Loss for year attributable to equity holders	-	-	-	-	(413,643)	(413,643)
Issue of shares on acquisition	40,000	-	54,000	-	(4,385)	89,615
Dividends	-	-	-	-	(190,295)	(190,295)
Balance at 31 March 2016	<u>1,308,634</u>	<u>1,751,358</u>	<u>133,836</u>	<u>143,628</u>	<u>2,747,087</u>	<u>6,084,543</u>
Balance at 1 April 2016	1,308,634	1,751,358	133,836	143,628	2,747,087	6,084,543
Loss for year attributable to equity holders	-	-	-	-	(691,198)	(691,198)
Issue of shares	159,092	164,659	-	-	-	323,751
Dividends	-	-	-	-	(196,295)	(196,295)
Balance at 31 March 2017	<u>1,467,726</u>	<u>1,916,017</u>	<u>133,836</u>	<u>143,628</u>	<u>1,859,594</u>	<u>5,520,801</u>

Accounting policies and notes on pages 23 to 43 form part of these financial statements

PHSC plc

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	Note	31.3.17 £	31.3.16 £
Cash flows from operating activities:			
Cash generated from operations	I	124,925	414,062
Interest paid		(2,117)	(8)
Tax paid		(100,061)	(83,041)
Net cash generated from operating activities		22,747	331,013
Cash flows used in investing activities			
Purchase of property, plant and equipment		(2,087)	(35,654)
Payments in relation to acquisitions (net of cash acquired)		–	(262,674)
Disposal of fixed assets		1,574	724
Interest received		471	1,052
Net cash used in investing activities		(42)	(296,552)
Cash flows used by financing activities			
Payment of deferred consideration		(200,000)	(50,000)
Proceeds from placement of shares		323,751	–
Dividends paid to Group shareholders		(196,295)	(190,295)
Net cash used by financing activities		(72,544)	(240,295)
Net decrease in cash and cash equivalents		(49,839)	(205,834)
Cash and cash equivalents at beginning of year		256,558	462,392
Cash and cash equivalents at end of year		206,719	256,558

NOTES TO THE GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	31.3.17 £	31.3.16 £
I. CASH GENERATED FROM OPERATIONS		
Operating loss – continuing operations	(719,047)	(338,767)
Depreciation charge	44,089	46,882
Goodwill impairment	625,191	608,936
Fair value movement in contingent consideration	(50,000)	–
Loss on sale of fixed assets	5,545	2,298
Increase in inventories	(70,996)	(28,179)
Decrease in trade and other receivables	447,384	381,937
Decrease in trade and other payables	(157,241)	(259,045)
Cash generated from operations	124,925	414,062

PHSC plc

ACCOUNTING POLICIES

for the year ended 31 March 2017

General information

PHSC plc is a company listed on AIM and incorporated in England and Wales 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 strategic report on page 3. The financial statements are presented in pounds sterling which is the Group's functional and presentation currency. The figures shown in the financial statements are rounded to the nearest pound.

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 except as noted below.

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 as the Group has adequate resources to continue in operational existence for the foreseeable future based upon forecasts. Further details are provided in the strategic report.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not been adopted by the European Union. The directors have assessed the potential impact of IFRS 15 and do not expect that the adoption of this standard will have a material impact on the financial statements of the Group in future periods. IFRS 16 may have an impact on the measurement and treatment of operating leases and the related disclosures. As at 31 March 2017 the estimated impact of the transition to IFRS 16 would be to increase tangible fixed assets and liabilities by approximately £130,000. The impact on the statement of comprehensive income is not expected to be material to the financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of PHSC plc and all its subsidiary undertakings made up to 31 March 2017.

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. Acquisition related costs are expensed as incurred. 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.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2017

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. 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 profit and loss in the period in which they are incurred. All other decreases are charged to profit and loss.

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.

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 buildings	-	2% on cost
Improvements to property	-	shorter of the lease term and 10% on cost
Fixtures and equipment	-	25% on reducing balance
Motor vehicles	-	25% on reducing balance

Material residual value estimates are updated as required. An asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are recognised in profit and loss.

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 exceptional administrative expenses.

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving inventory. The value of inventory is calculated on purchase cost on a first-in, first-out basis.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2017

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.

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.

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, 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.

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.

The proceeds of share issues, received net of any directly attributable transactions costs are credited to share capital at nominal value and the excess credited to the share premium account.

The capital redemption reserve arose when the company repurchased some of its own shares. At that point the nominal value of those shares was transferred to the capital redemption reserve.

The merger relief reserve represents the premium of any shares issued in part consideration on acquisitions in accordance with section 612 of The Companies Act 2006.

PHSC plc

ACCOUNTING POLICIES *(continued)*

for the year ended 31 March 2017

Employee benefits

The Group supports various personal pension arrangements and is auto-enrolment compliant. Payments are made to individual defined contribution pension schemes. Agreed contributions are charged to the statement of comprehensive income as they become payable.

Revenue recognition

Revenue consists of 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.

Historically the majority of the Group's revenue has arisen from the core health and safety businesses with the major income streams being derived from activities such as asbestos management, training, consultancy, supporting the education sector, serving the leisure industry and carrying out statutory examinations of plant and machinery. In 2016-17 for the first time in the Group's history, more revenue arose from security-related sales in the form of installations and consumables than from health and safety services.

Consultancy and inspection revenue is recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Training revenue is recognised on the date the training is carried out.

The sale of products such as security tagging, labelling and CCTV through B to B and SG are recognised when the products are transferred to the customer.

Revenue relating to installations of security equipment such as CCTV is recognised at the point it is installed.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the Group statement of financial position are reported at the rates of exchange prevailing at that date. All foreign exchange gains and losses are presented in the statement of comprehensive income within the administrative expense heading.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2017

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 which 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 cash flow 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 keeps open avenues for securing debt finance to ensure that funds may be called upon if and when needed for operations and payments due in respect of acquisitions. 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 2017				
Trade and other payables	1,064,358	-	-	-
Contingent consideration	25,000	-	-	-
At 31 March 2016				
Trade and other payables	1,221,599	-	-	-
Deferred consideration	200,000	-	-	-
Contingent consideration	-	75,000	-	-

Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders. The Group defines capital as share capital plus reserves. The Group is not subject to any externally imposed capital requirements. The board monitors levels of cash and any excess levels have historically been used for acquisitions.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

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.

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 director's expectations of future volumes and margins based on the forecast results to 31 March 2018 in perpetuity assuming a zero growth rate. Full details are disclosed in note 6.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

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 activities is included in the strategic report on pages 3 to 11.

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.

	PHSC plc	PHSCL	RSA	ALS	ISL	QLM	QCS	B to B	SG	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 31 March 2017										
Total revenue (all external)	-	667	374	823	228	437	624	2,595	1,414	7,162
Depreciation	15	7	1	7	-	2	1	9	2	44
Subsidiary operating profit/(loss)	(501)	219	65	(194)	44	74	211	52	(113)	(143)
Net interest	(1)	-	-	(1)	-	-	-	-	-	(2)
Taxation credit	-	-	-	-	-	-	-	-	3	3
Deferred taxation	(34)	36	-	1	-	-	-	22	1	26
Consolidation adjustments:										
Release contingent consideration										50
Goodwill impairment										(625)
Group loss for year										(691)
As at 31 March 2016										
Total revenue (all external)	-	703	413	1,827	219	506	528	2,552	256*	7,004
Depreciation	7	11	1	8	-	3	1	14	1	46
Subsidiary operating profit/(loss)	(479)	276	73	77	40	96	123	134	(69)	271
Net interest	1	-	-	-	-	-	-	-	-	1
Taxation	(10)	(41)	(9)	-	(7)	(13)	(19)	-	-	(99)
Deferred taxation	10	(1)	-	2	(7)	1	1	-	(1)	5
Consolidation adjustments:										
Taxation – group loss relief										17
Goodwill impairment										(609)
Group loss for year										(414)

* 3.5 months post acquisition only.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

3. SEGMENTAL REPORTING – continued

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

	PHSC plc £'000	PHSCL £'000	RSA £'000	ALS £'000	ISL £'000	QLM £'000	QCS £'000	B to B £'000	SG £'000	Total £'000
Year ended										
31 March 2017										
Non-current asset additions	-	-	1	-	-	-	-	1	-	2
Non-current assets	5,125	6	419	20	1	7	3	273	8	5,862
Current assets	(1,170)	857	174	344	163	256	417	902	199	2,142
Total assets	3,955	863	593	405	164	263	420	1,175	207	8,045
Current liabilities	128	40	49	82	109	120	88	343	130	1,089
Non-current liabilities	44	1	-	3	-	1	-	-	-	49
Total liabilities	172	41	49	85	109	121	88	343	130	1,138
Net operating assets										6,907
Consolidation adjustments										
Non-current assets i										(1,336)
Non-current liabilities iii										(9)
Net assets										<u>5,521</u>
Year ended										
31 March 2016										
Non-current asset additions	-	1	-	1	-	1	1	22	-	26
Non-current assets	5,329	333	420	68	1	9	4	349	10	6,523
Current assets	(1,366)	531	190	966	143	240	348	1,094	377	2,523
Total assets	3,963	864	610	1,034	144	249	352	1,443	387	9,046
Current liabilities	271	95	84	150	115	124	98	457	183	1,577
Non-current liabilities	85	37	-	4	-	1	-	5	1	133
Total liabilities	356	132	84	154	115	125	98	462	184	1,710
Net operating assets	3,607	732	526	880	29	124	254	981	203	7,336
Consolidation adjustments:										
Non-current assets i										(1,264)
Current liabilities ii										18
Non-current liabilities iii										(5)
Net assets										<u>6,085</u>

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

(ii) Group relief of corporation tax losses.

(iii) Deferred tax adjustment to property revaluation.

* PHSC plc company accounts reflects the overdraft in current liabilities. In PHSC plc group accounts and segmental analysis, the overdraft is reflected as part of Group facility shown under current assets.

Revenues from one customer within the B to B business segment totalled £1,491,685 (2016:£1,634,765).

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* *for the year ended 31 March 2017*

4. AUDITOR REMUNERATION

	31.3.17	31.3.16
	£	£
Audit		
Fees payable to the company's auditor for the audit of the annual parent company and consolidated accounts	7,195	6,080
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	<u>28,865</u>	<u>25,200</u>
Total audit	<u>36,060</u>	<u>31,280</u>
Tax		
Tax compliance services	10,255	11,200
Tax advisory services	<u>2,700</u>	<u>5,200</u>
Total tax	<u>12,955</u>	<u>16,400</u>
Total	<u>49,015</u>	<u>47,680</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

5. PROPERTY, PLANT AND EQUIPMENT

	Freehold property £	Improvements to property £	Fixtures and equipment £	Motor vehicles £	Totals £
COST					
At 1 April 2015	712,000	32,299	270,666	39,643	1,054,608
Additions	-	-	11,095	15,125	26,220
Disposals	-	-	-	(7,363)	(7,363)
Acquisition of subsidiary	-	-	9,434	-	9,434
At 31 March 2016	712,000	32,299	291,195	47,405	1,082,899
Additions	-	-	2,087	-	2,087
Disposals	-	-	(2,934)	(16,495)	(19,429)
At 31 March 2017	712,000	32,299	290,348	30,910	1,065,557
DEPRECIATION					
At 1 April 2015	136,982	23,982	188,203	15,846	365,013
Charge for year	11,209	2,398	23,847	9,428	46,882
Disposals	-	-	-	(4,341)	(4,341)
At 31 March 2016	148,191	26,380	212,050	20,933	407,554
Charge for year	16,483	2,399	19,517	5,690	44,089
Disposals	-	-	(453)	(11,857)	(12,310)
At 31 March 2017	164,674	28,779	231,114	14,766	439,333
NET BOOK VALUE					
At 31 March 2017	547,326	3,520	59,234	16,144	626,224
At 31 March 2016	563,809	5,919	79,145	26,472	675,345
At 31 March 2015	575,018	8,317	82,463	23,797	689,595

Depreciation expenses of £44,089 (2016: £46,882) are included in administrative expenses in the statement of comprehensive income.

Lease rentals amounting to £132,369 (2016: £154,948), relating to the lease of buildings and motor vehicles are included in the statement of comprehensive income.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

6. GOODWILL

	Goodwill £
COST	
At 1 April 2015	4,981,933
Additions	532,614
At 31 March 2016 and 2017	<u>5,514,547</u>
AMORTISATION	
At 1 April 2015	401,957
Impairment	608,936
At 31 March 2016	1,010,893
Impairment	625,191
At 31 March 2017	<u>1,636,084</u>
NET BOOK VALUE	
At 31 March 2017	<u>3,878,463</u>
At 31 March 2016	<u>4,503,654</u>
At 31 March 2015	<u>4,579,976</u>

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:

	31.3.17 £	31.3.16 £
Personnel Health & Safety Consultants Limited and dormant subsidiaries	594,952	594,952
RSA Environmental Health Limited	581,482	581,482
Adamson's Laboratory Services Limited	–	625,191
Inspection Services (UK) Limited	205,207	205,207
Quality Leisure Management Limited	582,844	582,844
QCS International Limited	417,638	417,638
B to B Links Limited	943,564	943,564
SG Systems (UK) Limited	337,112	337,112
Camerascan CCTV Limited	195,502	195,502
	<u>3,858,301</u>	<u>4,483,492</u>
At company level	20,162	20,162
Total goodwill for Group	<u>3,878,463</u>	<u>4,503,654</u>

When considering impairment, the directors have taken the cash flow forecast prepared to 31 March 2018 and used the expected cash flows for that year in perpetuity as the cash flows generated are expected to continue for the foreseeable future. Adoption of a zero growth rate has been adopted except in the case of B to B and SG where growth of up to 10% has been incorporated based on current forecasts formulated after a review of revenue expectations on key accounts.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

6. GOODWILL – continued

The cash flow projections:

- are based on profits before tax and inter group management charges;
- have been discounted using a discount rate of 11%. The rate has been determined by calculating the Group's weighted average cost of capital (WACC) of 4% using the capital asset pricing model with a 7% risk factor added.

The table below shows the amount by which each subsidiary's recoverable amount exceeds its carrying value. An illustration is also provided of the extent to which the key assumptions regarding cash flow and WACC need to change before impairment would be necessary.

	Margin in carrying value £	Annual cash flow at which impairment required £	WACC at which impairment required %
Personnel Health & Safety Consultants Limited and dormant subsidiaries	1,999,412	65,445	48
RSA Environmental Health Limited	47,791	63,963	12
Adamson's Laboratory Services Limited	-	68,771	(9)
Inspection Services (UK) Limited	17,884	22,573	12
Quality Leisure Management Limited	72,247	64,113	12
QCS International Limited	1,510,180	45,940	51
B to B Links Limited	935,616	125,297	20
SG Systems (UK) Limited	438,115	37,082	25

The impairment review undertaken by the directors identified that the value-in-use of the ALS cash generating unit was less than its carrying value and thus an impairment was required. The remaining goodwill of £625,191 has been fully impaired on the basis that the remaining goodwill that could be supported by the value-in-use calculation was not considered material.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

7. TRADE AND OTHER RECEIVABLES

	31.3.17 £	31.3.16 £
Trade receivables	1,298,804	1,690,471
Less provision for impairment of trade receivables	(21,982)	(15,322)
Trade receivables - net	1,276,822	1,675,149
Other debtors, prepayments and accrued income	170,671	219,726
Total	1,447,493	1,894,875

At 31 March 2017 there were £21,892 impaired trade receivables (2016:£15,322).

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

	31.3.17 £	31.3.16 £
Up to 3 months	519,939	659,104
3 - 6 months	74,231	190,258
Over 6 months	49,690	54,663
	643,860	904,025

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

	31.3.17 £	31.3.16 £
At 1 April	15,322	21,442
Provision for receivables impairment	57,856	(6,451)
Receivables written back during the year as uncollectible	(51,196)	331
At 31 March	21,982	15,322

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 write back of uncollectible receivables for the year ended 31 March 2017 was unusually high due to B to B incurring a bad debt of around £40,000 after a client went into administration.

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 2017

8. INVENTORIES

	31.3.17 £	31.3.16 £
Stocks	<u>487,367</u>	<u>416,371</u>

No inventory was written down in the current year (2016:£nil).The value of inventory consumed and recognised as an expense was £1,837,192 (2016:£1,272,104).

9. CASH AND CASH EQUIVALENTS

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

	31.3.17 £	31.3.16 £
Cash at bank and in hand	<u>206,719</u>	<u>256,558</u>

On 1 October 2008, PHSC plc entered into an unlimited multilateral guarantee with HSBC plc (see note 12).

10. CALLED UP SHARE CAPITAL

	Number of shares (Nominal value of 10p)	Ordinary shares £	Share premium £	Total £
Called up, allotted and fully paid				
At 1 April 2015	12,686,348	1,268,634	1,751,358	3,019,992
Shares issued	400,000	40,000	-	40,000
At 31 March 2016	13,086,348	1,308,634	1,751,358	3,059,992
Shares issued	1,590,909	159,092	164,659	323,751
At 31 March 2017	<u>14,677,257</u>	<u>1,467,726</u>	<u>1,916,017</u>	<u>3,383,743</u>

11. TRADE AND OTHER PAYABLES

	31.3.17 £	31.3.16 £
Trade payables	415,321	466,549
Social security and other taxes	267,100	323,455
Other payables	58,615	75,561
Accruals	97,815	74,813
Deferred income	225,507	281,221
Total	<u>1,064,358</u>	<u>1,221,599</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

12. FINANCIAL LIABILITIES

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 as the Group has the right to offset overdrawn accounts with accounts in credit across the Group. During the year HSBC plc renewed the Group's £300,000 overdraft facility which is secured by a debenture including a fixed charge over all present freehold and leasehold property; first fixed charge over book and other debts, chattels, goodwill and uncalled capital, both present and future; and first floating charge over all assets and undertakings both present and future. The overdraft is next reviewed in October 2017.

13. DEFERRED AND CONTINGENT CONSIDERATION

Deferred consideration	Current £	Non-current £	Total £
At 1 April 2015	-	-	-
Liability in relation to acquisition of SG	200,000	-	200,000
At 31 March 2016	200,000	-	200,000
Paid during year	(200,000)	-	(200,000)
At 31 March 2017	-	-	-
	Current £	Non-current £	Total £
Contingent consideration			
At 1 April 2015	-	-	-
Liability in relation to acquisition of SG	-	75,000	75,000
At 31 March 2016	-	75,000	75,000
Transfer from non-current to current	75,000	(75,000)	-
Fair value movement on contingent consideration	(50,000)	-	(50,000)
At 31 March 2017	25,000	-	25,000

Under the SG sale and purchase agreement, a final payment becomes due on 11 December 2017, the second anniversary of the acquisition date, determined by a formula that relates to performance over the two years post acquisition. At 31 March 2016 the fair value of the contingent consideration was considered to be £75,000. As the business has not performed in line with the targets that would have triggered a payment of that amount, the fair value at 31 March 2017 is now estimated to be £25,000. The resulting fair value movement has been credited to the income statement.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

14. DEFERRED TAX

	Tax losses carried forward £	Accelerated capital allowances £	Other short term timing differences £	Total £
Deferred tax asset				
At 1 April 2015	-	-	-	-
Credited to income statement	-	-	497	497
At 31 March 2016	-	-	497	497
Credited/(debited) to income statement	21,617	-	(421)	21,196
At 31 March 2017	21,617	-	76	21,693
Deferred tax liabilities				
	Provision revalued properties £	Accelerated capital allowances £	Intangible assets £	Total £
At 1 April 2015	46,620	15,760	5,157	67,537
Credited to income statement	(3,184)	(1,598)	-	(4,782)
At 31 March 2016	43,436	14,162	5,157	62,755
Credited to income statement	(248)	(4,707)	-	(4,955)
At 31 March 2017	43,188	9,455	5,157	57,800

Deferred tax has been provided on the revalued fixed assets at 19% (2016: 19%). At present it is not envisaged that any tax will become payable in the foreseeable future.

15. EXPENSES BY NATURE

	31.3.17 £	31.3.16 £
Cost of sales	2,793,955	2,100,063
Staff related costs	2,900,612	3,162,119
Premises costs	162,671	147,609
Professional fees	452,182	351,190
Operating lease expenses	132,369	154,948
Other expenses	865,926	818,242
Goodwill impairment	625,191	608,936
Total cost of sales and administrative expenses	7,932,906	7,343,107

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

16. EMPLOYEES

Staff costs (including executive directors)

	31.3.17	31.3.16
	£	£
Wages and salaries	2,557,308	2,782,477
Social security costs	247,605	278,553
Other pension costs	59,208	61,485
	<u>2,864,121</u>	<u>3,122,515</u>

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

	31.3.17	31.3.16
Directors	9	9
Consultants	38	48
Administrative	41	43
Total	<u>88</u>	<u>100</u>

The aggregate compensation for key management, being the members of the board of PHSC plc and the directors of the subsidiary companies (including de facto directors), was as follows:

	31.3.17	31.3.16
Short-term employee benefits	544,655	580,773
Post-employment benefits	57,539	51,151
Total	<u>602,194</u>	<u>631,924</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

17. DIRECTORS' REMUNERATION

Directors of PHSC plc only

	31.3.17 £	31.3.16 £
Emoluments	190,148	187,421
Pension contributions to money purchase schemes	15,638	17,780
	<u>205,786</u>	<u>205,201</u>

The remuneration of the executive directors from all group companies was as follows:

	Year ended 31.3.17						Total £	Year ended 31.3.16 Total £
	Salary £	Bonus £	Waiver £	Short term employee benefits Pension salary Sacrifice £	Benefits £	Post employment benefits Pension £		
S A King	90,000	2,203	(3,289)	(3,300)	2,167	7,470	95,251	91,381
N C Coote	70,000	2,203	(700)	(4,950)	7,814	8,168	82,535	85,820

Stephen King's benefits pertain to health insurance and Nicola Coote's to a company car and health insurance. Both directors opted to take their bonus as a pension contribution.

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

	Year ended 31.3.17 £	Year ended 31.3.16 £
M J L Miller	–	14,000
G N Webb	14,000	14,000
L C Young	14,000	–

18. FINANCE INCOME AND COSTS

	31.3.17 £	31.3.16 £
Finance income		
Interest received	471	1,052
Interest expense		
Bank interest	–	8
Other interest	2,117	–
	<u>2,117</u>	<u>8</u>
Net finance (charge)/income	<u>(1,646)</u>	<u>1,044</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

19. TAXATION

Analysis of tax charge in year

	31.3.17 £	31.3.16 £
Current tax:		
UK corporation tax on profits in the year	–	81,075
Adjustments in respect of previous year	<u>(3,344)</u>	<u>124</u>
Total current tax (credit)/charge	<u>(3,344)</u>	81,199
Deferred tax on origination and reversal of timing differences (provided at 19%)	<u>(24,171)</u>	<u>(5,279)</u>
Adjustment in respect of previous years	<u>(1,980)</u>	<u>–</u>
Taxation (credit)/charge	<u>(29,495)</u>	<u>75,920</u>

Factors affecting tax charge for year

The relationship between expected tax expense based on the effective tax rate of PHSC plc at 20% (2016: 20%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	31.3.17 £	31.3.16 £
Loss on ordinary activities before tax	<u>(720,693)</u>	<u>(337,723)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	<u>(144,138)</u>	<u>(67,545)</u>
Effects of:		
Expenses not deductible for tax purposes	115,398	129,554
Other permanent differences	–	2,163
Depreciation on ineligible assets	3,297	–
Losses carried back to prior period	–	14,662
Adjustment of deferred tax to standard rate of 20%	1,272	(2,129)
Adjustments in respect of prior periods	<u>(5,324)</u>	<u>(785)</u>
Total tax (credit)/charge	<u>(29,495)</u>	<u>75,920</u>

The UK government has legislated to reduce the main rate of corporation tax to 19% from 1 April 2017 and then to 17% from 1 April 2020. This will affect future tax charges.

20. EARNINGS PER SHARE

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.

	31.3.17	31.3.16
Loss attributable to equity holders of the Group (£)	(691,198)	(413,642)
Weighted average number of ordinary shares in issue	14,062,687	12,806,901
Basic earnings per share (pence per share)	(4.92p)	(3.23p)

There are no dilutive shares, options or warrants in issue.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

21. DIVIDENDS

A dividend of £196,295, representing 1.5p per ordinary share, was paid in respect of the year ended 31 March 2016 (2015:£190,295). There is no proposal to pay a final dividend in respect of the year ended 31 March 2017.

22. 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 operating leases are:

	31.3.17		31.3.16	
	Land and buildings £	Motor vehicles £	Land and buildings £	Motor vehicles £
Within one year	30,167	43,579	35,500	67,638
Between two and five years	38,000	20,021	66,667	54,552
Total	<u>68,167</u>	<u>63,600</u>	<u>102,167</u>	<u>122,190</u>

The Group had no capital commitments at the year end.

23. RELATED PARTY DISCLOSURES

	31.3.17 £	31.3.16 £
PHSC plc dividends were paid to directors as follows:		
S A King	38,584	40,500
N C Coote	43,453	44,353
G N Webb MBE	293	293
	<u>82,330</u>	<u>85,146</u>

24. ULTIMATE CONTROLLING PARTY

PHSC plc, incorporated in England and Wales, is the ultimate parent company of the Group. There is no ultimate controlling party, but Ms N C Coote, holds 21.42% (2016: Mr S A King 24.68%) of the issued share capital of PHSC plc.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

25. GOODWILL IMPAIRMENT AND CONTINGENT CONSIDERATION

The exceptional cost of £625,191 relates to the impairment of PHSC plc's investment in ALS. This was impaired by £608,936 as at 31 March 2016 due to the loss of a major contract. As stated in the strategic report, the business has struggled to replace the lost income and despite making significant cost reductions, reported a pre-tax and management charge loss of £194,600. The impairment review undertaken by the directors identified that the value-in-use of the ALS cash generating unit was less than its carrying value and thus an impairment was required. The remaining goodwill of £625,191 has been fully impaired on the basis that the remaining goodwill that could be supported by the value-in-use calculation was not considered material.

Under the SG sale and purchase agreement, a final payment becomes due on 11 December 2017, the second anniversary of the acquisition date, determined by a formula that relates to performance over the two years post acquisition. At 31 March 2016 the fair value of the contingent consideration was considered to be £75,000. As the business has not performed in line with the targets that would have triggered a payment of that amount, the fair value at 31 March 2017 is now estimated to be £25,000. The resulting fair value movement has been credited to the income statement.

26. FINANCIAL INSTRUMENTS

Set out below are the Group's financial instruments:

	31.3.17	31.3.16
	£	£
Financial assets at amortised cost		
Trade and other receivables	1,286,854	1,762,274
Cash and cash equivalents	206,719	256,558
	<u>1,493,573</u>	<u>2,018,832</u>
Financial liabilities at amortised cost		
Trade and other payables	473,936	851,323
	<u>473,936</u>	<u>851,323</u>
Due within 1 year	473,936	851,323
Due in over 1 year	-	-
	<u>473,936</u>	<u>851,323</u>
Full details of the overdraft facility can be found in note 12.		
Financial liabilities at fair value through profit and loss		
Contingent consideration	25,000	75,000
	<u>25,000</u>	<u>75,000</u>

The contingent consideration held at fair value through profit and loss is the final payment due on the acquisition of SG as determined by a formula that relates to the company's performance over the two year post acquisition period. As the business has not performed in line with the targets the directors are confident that the final payment will be limited to £25,000.

The fair values of the Group's financial instruments are considered not to be materially different to their book value.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* *for the year ended 31 March 2017*

27. REVENUE

Set out below is a breakdown of revenue:

	31.3.17 £	31.3.16 £
Revenue from services provided	3,152,927	4,195,895
Revenue from sale of products	4,009,372	2,808,445
	<u>7,162,299</u>	<u>7,004,340</u>

Revenue from the sale of products relates to the revenue of B to B and SG.

PHSC plc

**COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Note	31.3.17 £	31.3.16 £
Non-Current Assets			
Property, plant and equipment	9	554,712	250,146
Investments	10	4,569,931	5,078,397
		<u>5,124,643</u>	<u>5,328,543</u>
Current Assets			
Trade and other receivables	11	1,014,582	798,514
		<u>1,014,582</u>	<u>798,514</u>
Total Assets		6,139,225	6,127,057
Current Liabilities			
Trade and other payables	12	290,010	160,215
Overdraft	13	1,197,758	1,355,420
Current corporation tax		–	9,339
Deferred consideration	14	–	200,000
Contingent consideration	14	25,000	–
		<u>1,512,768</u>	<u>1,724,974</u>
Non-Current Liabilities			
Deferred taxation	15	44,453	10,018
Contingent consideration	14	–	75,000
		<u>44,453</u>	<u>85,018</u>
Total Liabilities		1,557,221	1,809,992
Net Assets		4,582,004	4,317,065
Capital and reserves attributable to equity holders of the Group			
Called up share capital	16	1,467,726	1,308,634
Share premium account	16	1,916,017	1,751,358
Capital redemption reserve		143,628	143,628
Merger relief reserve		133,836	133,836
Revaluation reserve		43,373	43,373
Retained earnings		877,424	936,236
		<u>4,582,004</u>	<u>4,317,065</u>

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 was £137,483 (2016: loss £876,679).

Approved and authorised for issue by the board on 10 August 2017 and signed on its behalf by;

S A King *Director*

PHSC plc

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

	Share Capital £	Share Premium £	Merger Relief Reserve £	Capital Redemption Reserve £	Revaluation Reserve £	Retained Earnings £	Total £
Balance at 1 April 2015	1,268,634	1,751,358	79,836	143,628	-	2,007,595	5,251,051
Loss for year attributable to equity holders	-	-	-	-	-	(876,679)	(876,679)
Issue of shares on acquisition	40,000	-	54,000	-	-	(4,385)	89,615
Transfer revaluation reserve from subsidiary	-	-	-	-	43,373	-	43,373
Dividends paid	-	-	-	-	-	(190,295)	(190,295)
Balance at 31 March 2016	1,308,634	1,751,358	133,836	143,628	43,373	936,236	4,317,065
Balance at 1 April 2016	1,308,634	1,751,358	133,836	143,628	43,373	936,236	4,317,065
Profit for year attributable to equity holders	-	-	-	-	-	137,483	137,483
Issue of shares	159,092	164,659	-	-	-	-	323,751
Dividends paid	-	-	-	-	-	(196,295)	(196,295)
Balance at 31 March 2017	1,467,726	1,916,017	133,836	143,628	43,373	877,424	4,582,004

PHSC plc

COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	Note	31.3.17 £	31.3.16 £
Cash flows used by operating activities:			
Cash generated used by operations	I	(232,630)	(68,092)
Tax paid		(9,115)	(149)
Interest paid		(1,187)	(8)
Net cash generated used by operating activities		(242,932)	(68,249)
Cash flows from/(used by) investing activities			
Purchase of property, plant and equipment		(132,003)	-
Payment in relation to acquisition of subsidiaries		-	(413,865)
Dividends from subsidiary companies		605,000	215,000
Interest received		141	803
Net cash from/(used by) investing activities		473,138	(198,062)
Cash flows used by financing activities			
Payment of deferred consideration		(200,000)	(50,000)
Proceeds from placement of shares		323,751	-
Dividends paid to Group shareholders		(196,295)	(190,295)
Net cash used by financing activities		(72,544)	(240,295)
Net decrease/(increase) in overdraft		157,662	(506,606)
Cash and cash equivalents at beginning of year		(1,355,420)	(848,814)
Overdraft at end of year		(1,197,758)	(1,355,420)

NOTES TO THE COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

	31.3.17 £	31.3.16 £
I. CASH USED BY OPERATIONS		
Loss before taxation and interest	(432,260)	(1,438,069)
Depreciation charge	15,342	7,026
Impairment of investment/goodwill	508,466	1,118,061
Fair value movement in contingent consideration	(50,000)	-
Increase in trade and other receivables	(216,068)	(117,932)
(Decrease)/increase in trade and other payables	(58,110)	362,822
Cash used by operations	(232,630)	(68,092)

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2017

1. BASIS OF PREPARATION

The company's financial statements have been prepared in accordance with IFRSs, as adopted by the European Union, International Financial Reporting Interpretation 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 except as noted below.

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 company'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 19.

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 loss for the year before dividends received from subsidiaries (2017: £605,000; 2016: £249,302) was £467,517 (2016: loss £1,091,679). There were no recognised gains and losses for 2017 or 2016 other than those included in the company statement of comprehensive income.

The financial statements have been prepared on a going concern basis. The company made a profit of £137,483 (2016: loss £876,679) for the year ended 31 March 2017 and had net assets of £4,582,004 at the balance sheet date (2016: £4,317,065).

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 as the company has adequate resources to continue in operational existence for the foreseeable future based upon forecasts. Further details are provided in the strategic report.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not been adopted by the European Union. The directors have assessed the potential impact of IFRS 15 (revenue recognition) and IFRS 16 (measurement and treatment of operating leases) but consider that the impact will not be material on the company's financial statements in future periods.

2. ACCOUNTING POLICIES

Revenue

Management charge income is recognised when the service the company has provided is fulfilled.

Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

2. ACCOUNTING POLICIES – continued

Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The directors regard the operations of the company as being one business segment. Further analysis of revenue is disclosed in note 3.

Pensions

The company operates a defined contribution pension scheme. Contributions payable for the year are charged to the income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of non-current assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold buildings	-	2% straight line on cost
Improvements to property	-	shorter of the lease term and 10% straight line on cost
Fixtures and equipment	-	25% reducing balance

Intangible assets

Goodwill represents the amount paid in connection with the acquisition of a business and represents the excess of the cost of acquisition over the net asset values of the interests acquired. Such goodwill is capitalised as an intangible asset and is stated at cost less accumulated amortisation and impairment losses.

Investments

Investments in subsidiary undertakings are stated at cost less amounts provided for any impairment in value. An impairment review is carried out each year. 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.

Impairment of tangible and intangible assets

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 exceptional administrative expenses.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* *for the year ended 31 March 2017*

2. ACCOUNTING POLICIES – continued

Taxation

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year.

Provisions

These are recognised when the company 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.

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. The proceeds of share issues, received net of any directly attributable transactions costs are credited to share capital at nominal value and the excess credited to the share premium account. The capital redemption reserve arose when the company repurchased some of its own shares. At that point the nominal value of those shares was transferred to the capital redemption reserve.

The merger relief reserve represents the premium of any shares issued in part consideration on acquisitions in accordance with section 612 of The Companies Act 2006.

Dividends

Dividends received from subsidiary companies are recognised at the point that the right to receive the dividend has been established.

3. REVENUE

The revenue of the company during the year was generated in the United Kingdom and derives from the management charge levied to the subsidiary companies.

4. LOSS BEFORE TAXATION

The loss before taxation is stated after charging:

	31.3.17	31.3.16
	£	£
<hr/>		
Depreciation - owned assets	<u>15,342</u>	<u>7,026</u>

5. DIRECTORS' REMUNERATION

Full details are given on page 17 of the group accounts.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

6. STAFF COSTS

	31.3.17	31.3.16
The average monthly number of employees during the year was as follows:		
Directors	4	4
Consultants	2	2
Administration	3	3
	<u>9</u>	<u>9</u>
	31.3.17	31.3.16
	£	£

The aggregate payroll costs of these persons were as follows:

Wages and salaries	268,725	265,329
Social security costs	23,740	26,113
Other pension costs	17,726	8,637
	<u>310,191</u>	<u>300,079</u>

The directors are considered to be key management personnel of the company.

7. AUDITOR'S REMUNERATION

Full details are given on page 31 of the group accounts.

8. FINANCE INCOME AND COSTS

	31.3.17	31.3.16
	£	£
Finance income		
Interest received	141	803
Interest expense		
Bank interest	–	(8)
Other interest	(1,187)	–
	<u>(1,046)</u>	<u>795</u>
Net finance (cost)/income		

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £	Freehold improvements £	Plant and equipment £	Totals £
COST OR VALUATION				
At 1 April 2015	122,000	23,978	13,103	159,081
Transfer from subsidiary	140,730	-	-	140,730
At 31 March 2016	262,730	23,978	13,103	299,811
Transfer from subsidiary	319,908	-	-	319,908
At 31 March 2017	582,638	23,978	13,103	619,719
DEPRECIATION				
At 1 April 2015	20,750	15,664	6,225	42,639
Charge for the year	2,909	2,398	1,719	7,026
At 31 March 2016	23,659	18,062	7,944	49,665
Charge for year	11,653	2,399	1,290	15,342
At 31 March 2017	35,312	20,461	9,234	65,007
NET BOOK VALUE				
At 31 March 2017	547,326	3,517	3,869	554,712
At 31 March 2016	239,071	5,916	5,159	250,146
At 31 March 2015	101,250	8,314	6,878	116,442

10. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Investment in shares of subsidiary undertakings	31.3.17 £
At 1 April 2015	5,593,394
Addition - SG	602,964
Addition - Camerascan *	229,901
Transfer of investment value to B to B on hive up of trade and assets	(229,801)
Impairment of investment in ALS	(1,118,061)
At 31 March 2016	5,078,397
Impairment of investment in ALS.	(508,466)
At 31 March 2017	4,569,931

The impairment review undertaken by the directors identified that the value-in-use of the ALS investment was less than its carrying value and thus an impairment was required. The value in use of the investment was deemed to be £116,725 and thus an impairment of the investment of £508,466 was required.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

10. INVESTMENT IN SUBSIDIARY UNDERTAKINGS – continued

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

Name of Company	Class of shares held	Proportion of voting rights held	Registered office
Personnel Health & Safety Consultants Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
Safetymark Certification Services Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
RSA Environmental Health Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
Adamson's Laboratory Services Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
Envex Company Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
In House The Hygiene Management Company Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
Inspection Services (UK) Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
Quality Leisure Management Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
QCS International Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
B to B Links Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
SG Systems (UK) Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR
Camerascan CCTV Limited	Ordinary	100%	The Old Church, 31 Rochester Road, Aylesford, Kent, ME20 7PR

11. TRADE AND OTHER RECEIVABLES

	31.3.17 £	31.3.16 £
Amount owed by subsidiary undertakings	987,148	764,286
Other receivables, prepayments and accrued income	27,434	34,228
	1,014,582	798,514

12. TRADE AND OTHER PAYABLES

	31.3.17 £	31.3.16 £
Trade payables	24,712	6,855
Amount owed to subsidiary undertakings	187,905	98,104
Social security and other taxes	31,172	32,743
Other payables	31,144	8,283
Accruals and deferred income	15,077	14,230
	290,010	160,215

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

13. OVERDRAFT

	31.3.17 £	31.3.16 £
Bank overdraft	<u>1,197,758</u>	<u>1,355,420</u>

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 as the Group has the right to offset overdrawn accounts with accounts in credit across the Group. During the year HSBC plc renewed the Group's £300,000 overdraft facility which is secured by a debenture including a fixed charge over all present freehold and leasehold property; first fixed charge over book and other debts, chattels, goodwill and uncalled capital, both present and future; and first floating charge over all assets and undertakings both present and future. On 31 March 2017, PHSC plc's company balance was £1,197,758 overdrawn (2016: £1,355,420 overdrawn) within the Group's cash at bank and in hand figure of £206,719 (2016: £256,558). The overdraft facility is reviewed subject to requirement.

14. DEFERRED AND CONTINGENT CONSIDERATION

Deferred consideration	Current £	Non-current £	Total £
At 1 April 2015	-	-	-
Liability in relation to acquisition of SG	200,000	-	200,000
At 31 March 2016	200,000	-	200,000
Paid during year	(200,000)	-	(200,000)
At 31 March 2017	-	-	-
Contingent consideration	Current £	Non-current £	Total £
At 1 April 2015	-	-	-
Liability in relation to acquisition of SG	-	75,000	75,000
At 31 March 2016	-	75,000	75,000
Transfer from non-current to current	75,000	(75,000)	-
Fair value movement on contingent consideration	(50,000)	-	(50,000)
At 31 March 2017	25,000	-	25,000

Under the SG sale and purchase agreement, a final payment becomes due on 11 December 2017, the second anniversary of the acquisition date, determined by a formula that relates to performance over the two years post acquisition. At 31 March 2016 the fair value of the contingent consideration was considered to be £75,000. As the business has not performed in line with the targets that would have triggered a payment of that amount, the fair value at 31 March 2017 is now estimated to be £25,000. The resulting fair value movement has been credited to the income statement.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

15. DEFERRED TAXATION

	31.3.17	31.3.16
	£	£
Deferred taxation - accelerated capital allowances	<u>44,453</u>	<u>10,018</u>
	Deferred tax	Deferred tax
	£	£
At 1 April 2016	10,018	3,711
Deferred tax debit in year	<u>34,435</u>	<u>6,307</u>
At 31 March 2017	<u>44,453</u>	<u>10,018</u>

16. SHARE CAPITAL

	Number of shares (Nominal value of 10p per share)	Ordinary shares £	Share premium £	Total £
Called up, allotted and fully paid				
At 1 April 2015	12,686,348	1,268,634	1,751,358	3,019,992
Shares issued	<u>400,000</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
At 31 March 2016	13,086,348	1,308,634	1,751,358	3,059,992
Shares issued	<u>1,590,909</u>	<u>159,092</u>	<u>164,659</u>	<u>323,751</u>
At 31 March 2017	<u>14,677,257</u>	<u>1,467,726</u>	<u>1,916,017</u>	<u>3,383,743</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

17. RELATED PARTY DISCLOSURES

A management charge is levied by PHSC plc to its subsidiary companies to reflect the central services it provides.

	31.3.17 £	31.3.16 £
Management charge from PHSC plc to subsidiary companies	<u>527,300</u>	<u>487,645</u>

The inter-company balances between PHSC plc and the other companies within the PHSC plc group are summarised below.

	31.3.17 £	31.3.16 £
<i>Amounts owed by group undertakings</i>		
Adamson's Laboratory Services Limited	31,104	-
B to B Links Limited	54,937	54,000
In House the Hygiene Company Limited	469,304	469,304
Inspection Services (UK) Limited	1,070	95
Personnel Health & Safety Consultants Limited	188,713	-
QCS International Limited	5,759	1,280
Quality Leisure Management Limited	1,737	1,406
RSA Environmental Health Limited	819	-
SG Systems (UK) Limited	4,004	8,600
Camerascan CCTV Limited	229,701	274,800
	<u>987,148</u>	<u>809,485</u>

Amounts owed to group undertakings

Adamson's Laboratory Services Limited	-	97,017
Personnel Health & Safety Consultants Limited	-	1,087
	<u>-</u>	<u>98,104</u>

PHSC plc received dividends from subsidiaries as follows:

Adamson's Laboratory Services Limited	350,000	5,000
B to B Links Limited	-	10,000
Inspection Services (UK) Limited	15,000	5,000
Personnel Health & Safety Consultants Limited	100,000	100,000
QCS International Limited	100,000	50,000
Quality Leisure Management Limited	20,000	25,000
RSA Environmental Health Limited	20,000	20,000
Camerascan (CCTV) Limited	-	34,302
	<u>605,000</u>	<u>249,302</u>

PHSC plc dividends were paid to directors as follows:

S A King	38,584	40,500
N C Coote	43,453	44,353
G N Webb MBE	293	293
	<u>82,330</u>	<u>85,146</u>

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

for the year ended 31 March 2017

18. FINANCIAL INSTRUMENTS

Set out below are the company's financial instruments:

	31.3.17 £	31.3.16 £
Financial assets at amortised cost		
Trade and other receivables	<u>987,148</u>	<u>843,713</u>
	987,148	843,713
Financial liabilities at amortised cost		
Overdraft	1,197,758	1,555,420
Trade and other payables	<u>55,856</u>	<u>160,215</u>
	1,253,614	1,715,635
Due within 1 year	1,253,614	1,715,635
Due in over 1 year	<u>-</u>	<u>-</u>
	1,253,614	1,715,635
Full details of the overdraft facility can be found in note 13.		
Financial liabilities at fair value through profit and loss		
Contingent consideration	<u>25,000</u>	<u>75,000</u>
	25,000	75,000

The contingent consideration held at fair value through profit and loss is the final payment due on the acquisition of SG. As explained in note 14, the provision has been reduced to £25,000 in line with the latest estimate of the payment that will be due.

The main risk arising from the company's financial instruments is liquidity risk. The company seeks to manage this risk by ensuring sufficient liquidity is available from current banking facilities to meet foreseeable needs and to invest cash assets safely and profitably. This policy has remained unchanged from previous periods.

The fair values of the company's financial instruments are considered not to be materially different to their book value.

PHSC plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)* *for the year ended 31 March 2017*

19. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The company may be required to make estimates and assumptions 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 principal areas where judgement was exercised are as follows:

Property, plant and equipment

The directors annually assess both the residual value of these assets and the expected useful life of such assets which is currently judged to be up to 4 years, based on experience.

Impairment of investments

An impairment of investments 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 investment. This calculation is based on the director's expectations of future volumes and margins based on forecast results to 31 March 2018 in perpetuity assuming a zero growth rate.

The cash flow projections:

- are based on profits before tax and inter group management charges;
- have been discounted using a discount rate of 11%. The rate has been determined by calculating the Group's weighted average cost of capital (WACC) of 4% using the capital asset pricing model with a 7% risk factor added.

20. PARENT UNDERTAKING

PHSC plc, incorporated in the UK, is the ultimate parent company of the Group. There is no ultimate controlling party but Ms N C Coote owns 21.42% (2016: Mr S A King 24.68%) of the issued share capital of PHSC plc.

The parent company operates within the UK and its accounts may be obtained from the same registered office address as noted on page 2 of the Group accounts.

PHSC plc

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the annual general meeting of PHSC plc will be held at 10.00 am on Monday 11 September 2017 at The Old Church, 31 Rochester Road, Aylesford, Kent ME20 7PR to consider the following resolutions of which resolutions 1 to 4 will be proposed as ordinary resolutions and resolutions 5 and 6 will be proposed as special resolutions.

Ordinary resolutions

1. To receive the annual report and audited accounts for the year ended 31 March 2017.
2. To re-elect Graham Webb as a director.
3. To reappoint Crowe Clark Whitehill LLP as auditor 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.
4. THAT, 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 shares in the company or to grant rights to subscribe for, or to convert any security into, shares in the company up to a total nominal amount of £489,242 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting in 2018 or on 30 September 2018, whichever is earlier, 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 shares to be allotted, rights to be granted or securities to be converted after such expiry and notwithstanding such expiry the directors may allot shares, grant rights or convert securities under such offers or agreements.

Special resolutions

5. THAT, subject to and conditional upon the passing as an ordinary resolution of resolution number 4 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 4 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) of equity securities and/or the sale and transfer of shares held by the company in treasury (as the directors shall deem appropriate) to any person or persons up to an aggregate nominal amount of £293,545.

such power to expire at the conclusion of the annual general meeting of the company in 2018 or, if earlier, on 30 September 2018, 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)*

6. 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 2,201,589;
 - (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 per cent 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 2018 or, if earlier, at the close of business on 30 September 2018, 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

Lorraine Young Company Secretaries Limited
Secretary

15 August 2017

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

PHSC plc

NOTICE OF ANNUAL GENERAL MEETING *(continued)*

Notes

1. Right to attend, speak and vote

If you want to attend, speak and vote at the AGM you must be on the Company's register of members at 6.00 pm on 7 September 2017. This will allow us to confirm how many votes you have on a poll. Changes to the entries in the register of members after that time, or, if the AGM is adjourned, 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.

2. Appointment of proxies

If you are a member of the Company you may appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the meeting. You may only appoint a proxy using the procedures set out in these notes and in the notes on the proxy form, which you should have received with this notice of meeting.

A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes on the form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

You may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares which you hold. If you wish to appoint more than one proxy you may photocopy the proxy form or alternatively you may contact the Company Secretary.

3. Appointment of proxy using hard copy proxy form

The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you do not indicate on the proxy form how your proxy should vote, they will vote or abstain from voting at their discretion. They will also vote (or abstain from voting) as they think fit in relation to any other matter which is put before the meeting.

To appoint a proxy using the proxy form, the form must be completed and signed and received by the Company Secretary at Shakespeare Martineau, 6th Floor, 60 Gracechurch Street, London EC3V 0HR no later than 48 hours (excluding non-working days) before the meeting. Any proxy forms (including any amended proxy appointments) received after the deadline will be disregarded.

The completed form may be returned by any of the following methods:

- Sending or delivering it to the Company Secretary, Shakespeare Martineau, 6th Floor, 60 Gracechurch Street, London EC3V 0HR
- Scanning it and sending it by email to kathy.thompson@shma.co.uk

If the shareholder is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer or attorney. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

4. Appointment of proxy by joint members

In the case of joint holders, where more than one joint holder purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

5. Changing your instructions

To change your proxy instructions simply submit a new proxy appointment using the methods set out above. The amended instructions must be received by the Company Secretary by the same cut-off time noted above. Where you have appointed a proxy using a hard copy proxy form and would like to change the instructions using another hard copy proxy form, please contact the Company Secretary on 020 7264 4382. If you submit more than one valid proxy form, the one received last before the latest time for the receipt of proxies will take precedence.

6. Termination of proxy appointments

In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Shakespeare Martineau, 6th Floor, 60 Gracechurch Street, London EC3V 0HR. Alternatively you may send the notice by email to kathy.thompson@shma.co.uk. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer or attorney. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, your revocation notice must be received by the Company no later than 48 hours (excluding non-working days) before the meeting. If your revocation is received after the deadline, your proxy appointment will remain valid. However, the appointment of a proxy does not prevent you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

7. Communications with the Company

Except as provided above, members who have general queries about the meeting should telephone the Company Secretary on 020 7264 4382 (no other methods of communication will be accepted). You may not use any electronic address provided either in this notice of general meeting, or any related documents, to communicate with the Company for any purposes other than those expressly stated.

8. Issued shares and total voting rights

As at 5.00 pm on the day immediately prior to the date of posting of this notice of meeting, the Company's issued share capital comprised 14,677,257 ordinary shares of 10p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company at that time was 14,677,257.

PHSC plc

Proxy form for use by holders of ordinary shares in PHSC plc at the Annual General Meeting (AGM) to be held on Monday 11 September 2017

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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Graham Webb as a director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To reappoint the auditors and authorise the directors to set their fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorise the directors to allot shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To disapply pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorise share buybacks	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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, Shakespeare Martineau, 6th Floor, 60 Gracechurch Street, London EC3V 0HR no later than 48 hours (excluding non-working days) before the time of the AGM or any adjournment.



