

01 December 2016

PHSC PLC
(“PHSC”, the “Company”, or the “Group”)

Unaudited Interim Results for the six months ended 30 September 2016

GROUP CHIEF EXECUTIVE OFFICER’S STATEMENT

Financial Highlights

- Group turnover for first half up 7% at £3.587m compared with £3.354m last year.
- Loss of £93k measured as EBITDA after bad debt provision, versus £229k profit last year.
- Loss per share of 0.85p compared with 1.23p per share profit last year.
- Cash balance of £301k at period end compared with £611k last year.
- Net asset value of £6.098m
- Pro-forma net asset value per share of 41.5p compared to a current share price (mid) of 18p.
- Q2 saw a return to profitable trading, but results impacted by £44k bad debt provision.

Trading Overview

In the trading update preceding our AGM, we reported a consolidated EBITDA loss of around £94k on sales of £2.3m for the first four months of the year. We indicated that improvements would take place by the time of our Interim results. Were it not for a loss of circa £40k caused by one client going into administration and an additional £4k provision for other potential bad debts, the last two months would have delivered EBITDA of £45k.

The board is confident of improvement in the second half of the year and we do not currently anticipate any additional provisions for bad debts. The Group returned to profitable trading in the month of October, achieving EBITDA of £25.6k and reducing the cumulative loss to £67.4k.

There is an analysis of performance by individual subsidiary later in this statement. The performances which have the most impact on the Group’s profitability are those of Adamson’s Laboratory Services Ltd (ALS) and SG Systems (UK) Ltd (SG). In the case of ALS, the ongoing loss-making situation is largely brought about by a continuing erosion of the prices at which work can be obtained, and a general reduction in revenues against a background of a predominantly fixed cost base. Management are taking steps to address this situation and several options are being considered. In the short term, there have unfortunately had to be a number of redundancies at the company, the costs of which are not reflected in the results for the first half.

The prognosis for SG is entirely different to that of ALS. This company, which was acquired in December 2015, has invested heavily in developing solutions to protect property using radio frequency identification technology (RFID). A number of significant trials and pilot schemes are underway with private and public sector clients and the company is hopeful of generating some significant revenues in the months to come. The cost of investment in technological solutions has affected the financial performance. In addition, there was reduced income from routine sales and servicing, both of which have been affected by a hiatus in orders from a major customer. However, SG returned to profit in September and October.

The inclusion of SG's revenues and costs in the consolidated accounts has resulted in higher administrative expenses compared with last year.

B to B Links Limited (B to B), which is a sister company to SG, continues to work with national accounts in the retail sector and has been successful in maintaining a strong order book that will see it through the remainder of the financial year. A negative factor is that the decline in the value of Sterling following the UK's referendum on EU membership has impacted on both B to B and SG. Both companies import the vast majority of their electronic components from Europe or Asia with payment having to be made in USD or Euros.

Training and consultancy relating to new ISO standards that took effect a year ago have enabled our QCS International Limited subsidiary to increase revenue and profit, and management are optimistic that this trend can continue over then next year and beyond. A new standard on health and safety, ISO 45001, is expected to be approved in 2017 and this will present further potential demand for the company's services.

Quality Leisure Management Limited has seen a fall in revenue and profits. This is attributable to reduced local authority funding of many leisure trusts, and some consolidation in the sector. Health and safety consultancy and training activity delivered by other group companies is largely unchanged but it has not been possible to increase income in line with the rising cost of delivery.

Outlook

The Group expects to trade profitably in the second half of the financial year, and will be concentrating its efforts on addressing some of the issues highlighted above. There are likely to be some restructuring costs associated with our ALS subsidiary as management seek to align costs with the lower revenues being currently generated. Following an approach by a third party, discussions were held which could have resulted in ALS leaving the Group. On this occasion we did not find the proposed terms to be suitable, but we remain open to future approaches that can be shown to be in shareholders' best interests.

Dividend Prospects

The Board is not declaring an interim dividend but will consider an appropriate level of final dividend at the relevant time. Despite the current performance, the Group has a reasonably strong balance sheet that includes retained earnings from previous years. However, if the Group does not generate a profit for the year, it may recommend a lower distribution or elect to forego a dividend entirely on this occasion.

Cash Flow

The bank balance stood at £301k as at the date of the interim accounts, compared with £611k at the interim stage last year. The reduction is primarily due to the acquisition payments totalling £400k made in December 2015. In addition, the Company raised £350k before costs from a share placing, as announced on 19 August 2016.

The £200k overdraft facility in place with our bankers, HSBC, has been subject to annual review. In view of the trading losses to date it was felt prudent to increase this facility to £300k to give sufficient support.

The bank balance as at 30 November was £356,017.

Performance by Trading Subsidiaries

Profit/loss figures for individual subsidiaries are stated before tax and inter-company charges (including the costs of operating the plc which are recovered through management charges to trading subsidiaries), interest paid and received, depreciation and amortisation.

Adamson's Laboratory Services Limited

Revenue of £509,800 resulting in a loss of £101,400 (the equivalent figures for the same period last year were £1,105,100 and a profit of £102,900).

Inspection Services (UK) Limited

Invoiced sales of £111,200 yielding a profit of £23,000 (the figures for the same period last year were £96,300 and £8,900).

Personnel Health and Safety Consultants Limited

Invoiced sales of £340,300 yielding a profit of £108,100 (the figures for the same period last year were £328,300 and £132,000).

RSA Environmental Health Limited

Invoiced sales of £189,200 resulting in a profit of £34,600 (the figures for the same period last year were £209,700 and £21,000).

Quality Leisure Management Limited

Invoiced sales of £196,400 resulting in a profit of £6,400 (the figures for the same period last year were £239,600 and £34,900).

QCS International Limited

Invoiced sales of £258,600 yielding a profit of £67,300 (the figures for the same period last year were £245,000 and £58,000).

B to B Links Limited

Invoiced sales of £1,237,900 yielding a profit of £38,000 (the figures for the same period last year were £1,120,100 and £58,900). The profit for the period ended 30 September 2016 is shown after deduction of circa £40,000 which proved unrecoverable after a client fell into administration.

SG Systems (UK) Limited

Invoiced sales of £743,673 resulting in a loss of £18,800 (there are no comparative figures for last year as the business was acquired in December 2015).

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

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About PHSC

PHSC plc, through its trading subsidiaries Personnel Health & Safety Consultants Ltd, RSA Environmental Health Ltd, Adamson's Laboratory Services Ltd, QCS International Ltd, Inspection Services (UK) Ltd and Quality Leisure Management Ltd, provides a range of health, safety, hygiene, environmental and quality systems consultancy and training services to organisations across the UK. B to B Links Ltd and SG Systems (UK) Ltd offer innovative retail security solutions including tagging, labelling and CCTV.

Group Statement of Comprehensive Income	Note	Six months ended 30 Sept 16 Unaudited £'000	Six months ended 30 Sept 15 Unaudited £'000	Year ended 31 Mar 16 £'000
Continuing operations				
Revenue	3	3,587	3,354	7,004
Cost of sales		(1,990)	(1,804)	(3,803)
Gross profit		<u>1,597</u>	<u>1,550</u>	<u>3,201</u>
Administrative expenses		(1,713)	(1,345)	(2,931)
Administrative expenses - exceptional	2	-	-	(609)
Other income		1	-	-
(Loss)/profit from operations		<u>(115)</u>	<u>205</u>	<u>(339)</u>
Finance income		1	-	1
Finance costs		-	-	-
(Loss)/profit before taxation		<u>(114)</u>	<u>205</u>	<u>(338)</u>
Corporation tax expense		-	(49)	(76)
(Loss)/profit for the period after tax attributable to owners of parent	3	<u>(114)</u>	<u>156</u>	<u>(414)</u>

Total comprehensive income attributable to owners of the parent

		<u>(114)</u>	<u>156</u>	<u>(414)</u>
Attributable to:				
Equity holders of the Group		<u>(114)</u>	<u>156</u>	<u>(414)</u>
Basic and diluted Earnings per Share for (loss)/profit after tax from continuing operations attributable to the equity holders of the Group during the period	5	(0.85p)	1.23p	(3.23p)

Group Statement of Financial Position		30 Sept 16	30 Sept 15	31 Mar 16
	Note	Unaudited £'000	Unaudited £'000	£'000
Non-current assets				
Property, plant and equipment	4	653	684	675
Goodwill		4,504	4,580	4,504
Deferred tax asset		1	-	1
		<u>5,158</u>	<u>5,264</u>	<u>5,180</u>
Current assets				
Inventories		493	224	416
Trade and other receivables		1,697	1,864	1,895
Cash and cash equivalents		301	611	256
		<u>2,491</u>	<u>2,699</u>	<u>2,567</u>
Total assets	3	7,649	7,963	7,747
Current liabilities				
Trade and other payables		1,129	1,126	1,222
Current corporation tax payable		84	134	103
Deferred consideration		200	-	200
		<u>1,413</u>	<u>1,260</u>	<u>1,525</u>
Non-current liabilities				
Deferred taxation liabilities		63	68	63
Contingent consideration		75	-	75
		<u>138</u>	<u>68</u>	<u>138</u>
Total liabilities		1,551	1,328	1,663
Net assets		<u>6,098</u>	<u>6,635</u>	<u>6,084</u>
Capital and reserves attributable to equity holders of the Group				
Called up share capital		1,468	1,268	1,308
Share premium account		1,915	1,751	1,751
Capital redemption reserve		144	144	144
Merger relief reserve		134	80	134
Retained earnings		2,437	3,392	2,747
		<u>6,098</u>	<u>6,635</u>	<u>6,084</u>

Group Statement of Changes in Equity

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Merger Relief Reserve £'000	Retained Earnings £'000	Total £'000
Balance at 1 April 2016	1,309	1,751	144	134	2,747	6,085
Loss for the period attributable to equity holders	-	-	-	-	(114)	(114)
Share issue	159	164	-	-	-	323
Dividends	-	-	-	-	(196)	(196)
Balance at 30 September 2016	1,468	1,915	144	134	2,437	6,098
Balance at 1 April 2015	1,268	1,751	144	80	3,355	6,598
Profit for the period attributable to equity holders	-	-	-	-	156	156
Dividends	-	-	-	-	(119)	(119)
Balance at 30 September 2015	1,268	1,751	144	80	3,392	6,635

Group Statement of Cash Flows	Six months ended 30 Sept 16 Unaudited £'000	Six months ended 30 Sept 15 Unaudited £'000	Year ended 31 Mar 16 £'000
Cash flows (used by)/generated from operating activities			
Cash (used by)/generated from operations	(64)	306	414
Interest paid	-	-	-
Tax paid	(19)	(20)	(83)
Net cash (used by)/generated from operating activities	<u>(83)</u>	<u>286</u>	<u>331</u>
Cash flows from/(used in) investing activities			
Purchase of property, plant and equipment	-	(18)	(36)
Purchase of subsidiary companies net of cash acquired	-	-	(263)
Disposal of fixed assets	-	-	1
Interest received	1	-	1
Net cash from/(used in) investing activities	<u>1</u>	<u>(18)</u>	<u>(297)</u>
Cash flows from/(used in) financing activities			
Payment of deferred consideration	-	-	(50)
Dividends paid to group shareholders	(196)	(119)	(190)
Proceeds from share placement	323	-	-
Net cash from/(used in) financing activities	<u>127</u>	<u>(119)</u>	<u>(240)</u>
Net increase/(decrease) in cash and cash equivalents	45	149	(206)
Cash and cash equivalents at beginning of period	<u>256</u>	<u>462</u>	<u>462</u>
Cash and cash equivalents at end of period	<u><u>301</u></u>	<u><u>611</u></u>	<u><u>256</u></u>

Notes to the cash flow statement

Cash (used by)/generated from operations

Operating (loss)/profit - continuing operations	(114)	205	(339)
Depreciation charge	21	24	47
Goodwill impairment	-	-	609
Loss on sale of fixed assets	-	-	2
Increase in inventories	(77)	(8)	(28)
Decrease in trade and other receivables	198	115	382
Decrease in trade and other payables	(92)	(30)	(259)
Cash (used by)/generated from operations	<u>(64)</u>	<u>306</u>	<u>414</u>

Notes to the Financial Statements

1. Basis of preparation

These condensed consolidated financial statements are presented on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and have been prepared in accordance with AIM rules and the Companies Act 2006, as applicable to companies reporting under IFRS.

The financial information contained in this report, which has not been audited, does not constitute statutory accounts as defined by Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 March 2016, prepared under IFRS have been filed with the Registrar of Companies. The auditors' report for the 2016 financial statements was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The same accounting policies and methods of computation are followed within these interim financial statements as adopted in the most recent annual financial statements.

New IFRS standards and interpretations not adopted

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 do not expect the adoption of these standards will have a material impact on the financial statements of the Group in future periods, except IFRS 15 may have an impact on revenue recognition and related disclosures and IFRS 16 may have an impact on the measurement and treatment of operating leases and related disclosures. At this point it is not practicable for the directors to provide a reasonable estimate of the effect of IFRS 15 and IFRS 16 as their detailed review of these standards is still ongoing.

The information presented within these interim financial statements is in compliance with IAS 34 "Interim Financial Reporting". This requires the use of certain accounting estimates and requires that management exercise judgement in the process of applying the Group's accounting policies. The areas involving a high degree of judgement or complexity, or areas where the assumptions and estimates are significant to the interim financial statements are disclosed below:

Impairment of goodwill

The Board has considered the carrying value of goodwill and although there have been losses in the interim period the longer term outlook remains positive and an impairment charge in these interim accounts is not therefore considered necessary and will be reassessed at the year end.

	30 Sept 16	30 Sept 15	31 Mar 16
	Unaudited	Unaudited	
	£'000	£'000	£'000
2 Exceptional Administrative Expenses			
Impairment of PHSC plc's investment in Adamson's Laboratory Services Limited	-	-	609

Notes to the Financial Statements (continued)

	30 Sept 16	30 Sept 15	31 Mar 16
3 Segmental Reporting	Unaudited	Unaudited	
	£'000	£'000	£'000
Revenue			
PHSC plc	-	-	-
Personnel Health & Safety Consultants Ltd	340	328	703
RSA Environmental Health Ltd	189	210	413
Adamson's Laboratory Services Ltd	510	1,105	1,827
Inspection Services Ltd	111	106	219
Quality Leisure Management Ltd	196	240	506
Q C S International Ltd	259	245	528
B to B Links Ltd	1,238	1,120	2,552
SG Systems (UK) Ltd	744	-	256
	<u>3,587</u>	<u>3,354</u>	<u>7,004</u>
Profit/(loss) after taxation, before management charge			
PHSC plc	(259)	(205)	(495)
Personnel Health & Safety Consultants Ltd	90	108	238
RSA Environmental Health Ltd	30	19	64
Adamson's Laboratory Services Ltd	(105)	89	87
Inspection Services Ltd	19	15	33
Quality Leisure Management Ltd	5	29	83
Q C S International Ltd	58	49	105
B to B Links Ltd	33	52	133
SG Systems (UK) Ltd	(20)	-	(70)
	<u>(149)</u>	<u>156</u>	<u>178</u>
Taxation adjustment (group loss relief and deferred tax)	35	-	17
Goodwill impairment	-	-	(609)
	<u>(114)</u>	<u>156</u>	<u>(414)</u>
Total assets			
PHSC plc	4,037	6,337	3,963
Personnel Health & Safety Consultants Ltd	951	422	864
RSA Environmental Health Limited	612	476	610
Adamson's Laboratory Services Ltd	954	815	1,034
Inspection Services Ltd	189	57	144
Quality Leisure Management Ltd	205	98	249
Q C S International Ltd	426	103	352
B to B Links Ltd	1,170	1,126	1,443
SG Systems (UK) Ltd	404	-	387
	<u>8,948</u>	<u>9,434</u>	<u>9,046</u>
Adjustment of goodwill	(1,299)	(1,471)	(1,299)
	<u>7,649</u>	<u>7,963</u>	<u>7,747</u>

Notes to the Financial Statements (continued)	30 Sept 16	30 Sept 15	31 Mar 16
	Unaudited	Unaudited	
4 Property, plant and equipment	£'000	£'000	£'000
Cost or valuation			
Brought forward	1,079	1,055	1,055
Additions	-	18	26
Disposals	-	-	(7)
Acquisition of subsidiary	-	-	9
Carried forward	<u>1,079</u>	<u>1,073</u>	<u>1,083</u>
Depreciation			
Brought forward	404	365	365
Charge	22	24	47
Disposals	-	-	(4)
Carried forward	<u>426</u>	<u>389</u>	<u>408</u>
Net book value	653	684	675

5 Earnings per share

The calculation of the basic earnings per share is based on the following data.

	30 Sept 16	30 Sept 15	31 Mar 16
	£'000	£'000	£'000
	Unaudited	Unaudited	
Earnings			
Continuing activities	(114)	156	(414)
Number of shares	30 Sept 16	30 Sept 15	31 Mar 16
Weighted average number of shares for the purpose of basic earnings per share	13,451,480	12,686,353	12,806,901