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CONTENTS

PHS SPECIALISE IN SERVICES THAT CREATE A BETTER WORKING ENVIRONMENT; FROM WASHROOM SERVICES, TO DUST MAT SERVICES, AND LIVE AND REPLICA PLANTS RIGHT THROUGH TO POINT OF USE WATER DISPENSERS.

WE ARE ONE OF THE LEADING PROVIDERS OF WORKPLACE SERVICES IN THE UK, OFFERING RENTAL AND SERVICING OF WORKPLACE ITEMS.

VISION

To be the best workplace services' provider in the UK, offering quality and value to our customers and a challenging rewarding career for everyone in the Company.

STRATEGY

Grow customer contract pool through
- **Maintaining a highly incentivised sales team;**
- **Developing our service/product offering through our workforce's creativity;**
- **Enhancing customer service by developing "Project 24/24";**
- **Reducing customer churn by delivering outstanding service.**

Continue selective acquisition strategy in low-technology growing markets, with high margin contractual income from large volumes of customers and strong cash generation.

Enhance margins through
- **Leveraging the existing national infrastructure;**
- **Continually improving operational effectiveness;**
- **Transferring best practices across the Group.**

FINANCIAL HIGHLIGHTS

PHS is focused on providing high quality workplace services to customers in the commercial, industrial, leisure, professional and public market sectors.

Turnover*

£114.7m
+21.5%

Operating profit*

£33.6m
+24.9%

Operating profit margins*

Improved from
28.5% to
29.3%

Organic growth in contractual turnover*

7%

Profit before tax**

£17.7m

Basic and diluted earnings per share

4.18p

* For continuing operations
** Last year loss £3.6m

CHAIRMAN'S STATEMENT

THE GROUP PERFORMED STRONGLY IN A YEAR THAT SAW US BECOME A PUBLIC COMPANY AND ENTER THE FTSE 250

Highlights All divisions continue to deliver improved performance and our acquisitions have been integrated on schedule.

- Turnover from continuing operations for the year ended 31 March 2002 increased by 21.5% to £114.7m with operating profit from continuing operations increasing by 24.9% to £33.6m.
- Operating profit margins from continuing operations improved from 28.5% to 29.3%.
- Basic earnings per share were 4.18p (2001: loss per share of 1.63p).
- Net cash inflow from operations was £35.9m compared to £30.3m last year, reflecting an operating profit to cash conversion of 107%.
- Net debt of £69.5m with resulting gearing of 28.5%.

This was a landmark year for PHS, which saw the Company list on the London Stock Exchange in June 2001, and I am delighted to report a strong set of maiden full-year results.

All of the four business areas of washroom services, dust mat services, live and replica plants and point of use water dispensers showed improved performance during the year with growth in turnover and operating profits. In addition, PHS now operates in a fifth area, the crate rental market, following the acquisition of Teacrate plc in April 2002. As a Group, the business continued to be driven forward through a number of internal initiatives to improve customer retention and through a series of bolt-on acquisitions.

Organic growth in contractual turnover of 7% was achieved year on year. We continue to drive growth through our highly incentivised sales force and develop our product/service offerings leveraging the creativity of our marketing and design teams. Service productivity and quality measured by percentage of contractual services completed on time improved. A number of new supplier contracts were negotiated in the year which will deliver expected ongoing annual savings of over £1m.

Supplementing our organic growth, the Group invested £30.2m in 25 bolt-on acquisitions in line with the acquisition strategy set out at flotation. These included the purchase of The UK Water Group Limited, which has doubled the size of our fast growing point of use water dispenser business.

We anticipate productivity benefits from our investment in IT and through improved route and customer density. We will continue to work in partnership with our key suppliers to deliver a quality service and value for our customers.

Board changes During June 2001, the Group listed on the London Stock Exchange. Two non-executive directors from Charterhouse Development Capital, Stuart Simpson and Lionel Giacomotto resigned on 6 June 2001 and we would like to take this opportunity to thank them for their contributions. At the same time, two new non-executives joined the Board, namely John Allan, who is also Chief Executive of Exel plc and Jan Astrand, previously Chief Executive of Axus International Inc.

People We continue to invest in the training and development of our people recognising that they are our most important assets. We delivered nearly 6,000 training days in the year to our workforce of over 2,000 people. I would like to thank everyone for their hard work and commitment over the past year.

Outlook We continue to operate in areas which are generally resilient to economic factors. We expect to continue to deliver sound organic growth supplemented by acquisitions in each of our core business areas.

We moved into a fifth workplace services area at the beginning of our new financial year with the acquisition of Teacrate plc, one of the UK's largest specialist crate rental businesses. This move into a growing market will provide further organic and acquisition growth opportunities for the Group.

We expect to continue to deliver year on year turnover and profit growth as we have consistently since the Group was founded in 1963, and look forward to a successful 40th year in 2003.

Bob Mackenzie
Chairman

GROUP AT A GLANCE PHS OPERATES THROUGH ITS FOUR DIVISIONS, PROVIDING QUALITY WORKPLACE SERVICES TO CUSTOMERS NATIONWIDE

phs Washrooms

PHS Washrooms is one of the UK's largest providers of washroom services, supplying the complete range of essential washroom products from sanitary disposal to air fresheners. Customers are provided with total service management including free product installation and free emergency call out. Service arrangements are flexible and PHS Washrooms are the only washroom service company in the UK to offer a 7 days a week, 24 hours a day emergency response service. A range of washroom and complimentary workplace consumables are also available for the customer to purchase directly.

Turnover

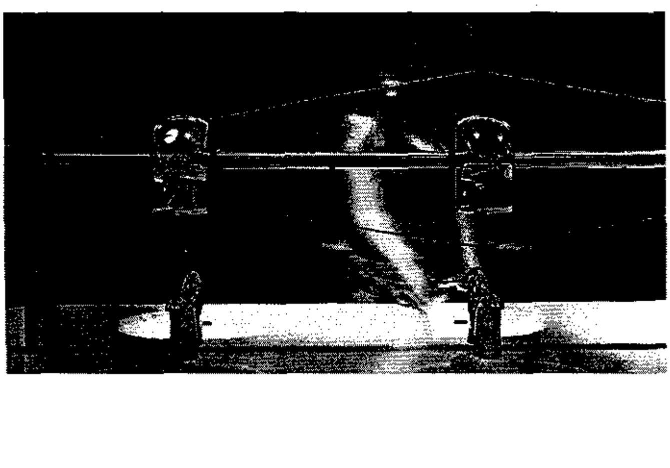
£83.8m +24.7%

Operating profit

£40.0m +22.7%

Operating margin

47.7%



phs Treadsmart

PHS Treadsmart is the UK's leading supplier of serviced dust mats. They provide a range of mats for both indoor and outdoor use, including a range of health and safety mats. Trained service personnel install the Treadsmart mats, and with the lift and lay service, the mats are regularly removed for specialist laundering. Treadsmart's commitment to service means the mats are immediately replaced so that customers' floors are never left without protection.

Turnover

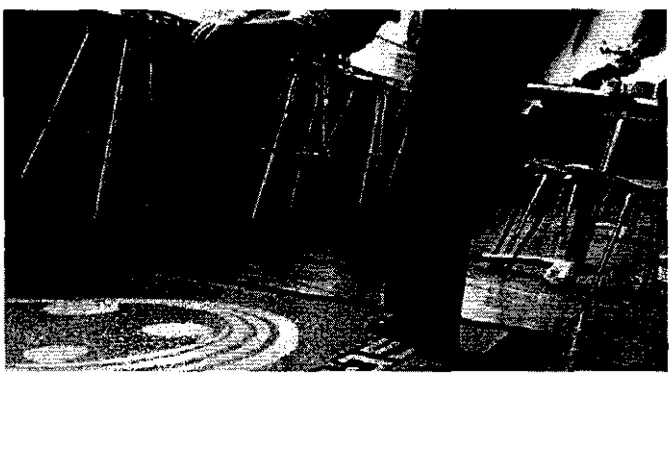
£13.5m +7.1%

Operating profit

£3.4m +30.8%

Operating margin

24.9%



phs Greenleaf

PHS Greenleaf is the largest provider of live and replica plant displays in the UK. These can be designed to suit areas from the smallest reception to the largest interior landscaping project. PHS Greenleaf has the experience, horticultural knowledge and creative skills to make a positive difference to customers' businesses.

Turnover

£14.1m +4.4%

Operating profit

£2.0m +17.6%

Operating margin

14.1%

phs Waterlogic

PHS Waterlogic is the UK market leader in point of use water dispensers. PHS Waterlogic use superior technology which is distinct from conventional water coolers in that it purifies mains water and dispenses it in a choice of hot, still or sparkling.

Turnover

£3.3m +200%

Operating profit

£0.9m

Operating margin

26.2%

CHIEF EXECUTIVE'S REVIEW

STRONG ORGANIC GROWTH IN THE CORE BUSINESSES, SUPPORTED BY INVESTMENT OF £30.2M IN 25 BOLT-ON ACQUISITIONS

Results for the year ended 31 March 2002 In a year which saw the Company gain entry to the London Stock Exchange and subsequently to the FTSE 250, the Group performed strongly with increased turnover and operating profits from each of the four core businesses operating throughout the year, namely: PHS Washrooms, PHS Treadsmart, PHS Greenleaf and PHS Waterlogic.

The business PHS now provides services in five main areas: washroom services, dust mat services, live and replica plants, point of use water dispensers, and crate rentals, the last of which was only recently acquired in April 2002. We are a customer focused, sales driven organisation. We run separate sales and service operations for each of the businesses with central marketing, finance and administration.

Business development Supporting our organic growth, business development has been driven by increasing our investment in marketing, extra sales resources and the provision of new products and services. Our operational initiatives aimed at improving customer retention levels for the year also proved highly successful.

The first of these initiatives is "Project Fast Response", which relates to our people training in customer relationship management to help us deliver better service and take ownership of customers' needs.

The second initiative is "Project 24/24", which provides our washroom customers with a 24 hour, 7 day per week service where PHS employees are available to take the customers' calls and deal with any issues within 24 real time hours.

The third and newest initiative supporting organic growth has been "Leads United", a new sales lead generation project that encourages our people, suppliers and customers to provide sales leads.

We have also invested in our existing customer database to improve our ability to sell a wider range of products and services.

Acquisitions As set out at the time of our flotation in June 2001, we plan to continue to develop our workplace services business in low technology, high margin, growing markets where there is fragmented competition and large volumes of customers requiring rental, service, and maintenance services on long-term contracts, spending relatively low sums of money on those services. The target sectors will require low capital investment and be strongly cash generative.

The 25 bolt-on acquisitions made during the year at a total cost of £30.2m fitted our tightly defined acquisition criteria and have been duly integrated on schedule. Our rate of acquisitions to date has been consistent with the £100m we identified for investment in acquisitions over the course of our first three years as a listed company.

The most significant acquisitions during the year are set out below:

Business name	Business activity	Consideration (£m)
Dee-esS Direct Supplies Limited (April 2001)	Tele-sales of washroom and workplace consumables. This acquisition was a bolt-on to PHS Direct, our existing tele-selling business.	2.9
Personnel Hygiene Services (NI) Limited (May 2001)	Provision of washroom services in Northern Ireland. This business previously operated under licence. This acquisition expanded the provision of our services into a new geographical region.	2.0
Doop Services Limited (June 2001)	Collection and disposal of out-of-date prescription-only medicines. This acquisition expanded our service range with a complimentary service, the provision of which benefits from our service infrastructure.	2.3
Elite Management Systems Limited (October 2001)	Rental of air fresheners. This acquisition was a bolt-on to our existing washroom services business.	5.2
The UK Water Group Limited (December 2001)	Rental and maintenance of plumbed in point of use purified water dispensers. This acquisition was a bolt-on to our existing water dispensers business.	6.3
Other		11.5
Total		**30.2**

Our acquisition following the year-end of Teacrate plc, one of the UK's leading specialist crate rental businesses, took us into a new market which shares many of the same characteristics as our existing operations. As an acquisition opportunity, Teacrate fitted closely with our criteria for high margin, low technology rental businesses in fast growth markets.

Costs and margins We continue to invest in the improvement of route planning and service performance monitoring and worked hard in the year to improve product and service density at customer locations.

Our procurement initiatives, which commenced in July 1998, continue to deliver real cost reductions as we agree long-term partnership deals with our suppliers. The total savings from this initiative now total over £5.0m per annum.

PHS Washrooms Turnover grew from £67.2m to £83.8m, an increase of 24.7% in the year.

Divisional operating profit before central costs grew from £32.6m to £40.0m, an increase of 22.7%. The margin moved from 48.5% to 47.7% as a result of variations in the mix of products/services sold.

New products launched included the Easy Vend, the Maxi Plus Nappy Disposal Unit and additions to the prestigious platinum range. Such new products have additional features and benefits, which enable PHS to make higher annual rental charges and achieve higher margins. In addition, our design and assembly facility in Tamworth continued to improve productivity, customer service and stock turn.

PHS Direct, which tele-sells washroom consumables, moved to a new warehousing and distribution centre in the Midlands to accommodate the current and future growth. During the course of the year, the key accounts team won a contract to supply all Tesco store washrooms with air fresheners.

PHS All Clear, our clinical waste business, won a contract to supply The Ashbourne Nursing Homes Group and a new special waste team was set up to focus on the provision of waste collection services to dentists, vets, chemists and doctors.

In terms of administrative efficiency, customer response times improved and our customer care teams contributed to a further improvement in contractual customer retention to 85% for the year. In addition, excellent savings were delivered from the procurement initiative, largely on chemicals and plastics.

During the year, £22.6m was invested in 19 acquisitions, including Personnel Hygiene Services (NI) Limited which previously acted as our distributor in Northern Ireland where we have since established a field sales force to accelerate organic growth.

PHS Treadsmart Turnover grew from £12.6m to £13.5m, an increase of 7.1% in the year.

Divisional operating profit before central costs grew from £2.6m to £3.4m, an increase of 30.8%. The margin improved from 20.4% to 24.9%.

The improvement in the margin was the result of four main factors: an increase of nearly 4% in average rental prices; a reduction in mat procurement costs; an improvement in the rental pool mix away from standard mats and into specialist mats such as our recently launched health and safety range; and an investment of £0.4m, for new laundry equipment in Brentford, which saved £0.2m of mat cleaning costs in the year.

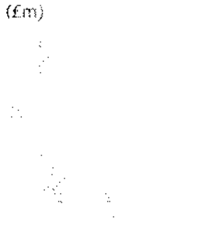
Treadsmart continued to be very active with initiatives to improve contractual customer retention, which increased to 85% for the year. Excellence in customer service was the main focus, but other initiatives included regular customer courtesy calls and a "Good to Come Back" campaign targeted at customers who had left Treadsmart more than nine months previously. As part of the continued drive to improve operational efficiency and customer service, a new depot was opened in Andover.

PHS Greenleaf Turnover grew from £13.5m to £14.1m, an increase of 4.4% in the year.

Divisional operating profit before central costs grew from £1.7m to £2.0m, an increase of 17.6%. The margin improved from 12.5% to 14.1%.

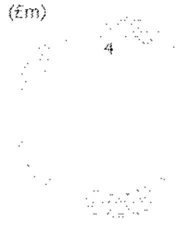
As part of the continued focus on margins and profitability, a number of depots were consolidated. Those at Heathrow and Welwyn closed with people moving to our Chiswick operation and Brentwood closed with people moving to our Waltham Abbey operation. The depot at Iver Heath was

Turnover*
(£m)



1 PHS Washrooms 73%
2 PHS Trendsmart 12%
3 PHS Greenleaf 12%
4 PHS Waterlogic 3%
Turnover £114.7m

Divisional operating profit**
(£m)



1 PHS Washrooms 87%
2 PHS Trendsmart 7%
3 PHS Greenleaf 4%
4 PHS Waterlogic 2%
Profit £46.2m

*For continuing operations
**For continuing operations and before central costs of £11.7m and £0.9m of acquisition integration costs.

closed towards the end of the second half and replaced by a small new depot in Newbury that should improve customer service along the M4 corridor.

Price increases were implemented following the introduction of improved products and containers. A new live plant supply contract has been negotiated which came into effect in April 2002, delivering expected savings of £0.1m per annum.

A new range of silk flowers was launched in the second-half aimed at hotels and corporate headquarters in London and the South East. The division won several prestigious new contracts and awards. These included the contract to provide interior landscaping for the new headquarters of GlaxoSmithKline in London. Greenleaf also won the national contract for the Bradford & Bingley Building Society Group, and the highly coveted American Landscape Contractors of America Grand Award for the Sunderland Winter Garden Project.

Customer retention received significant management attention in the second-half resulting in contractual customer retention levels showing signs of improvement, at 71% for the year. Customer care resource was increased and the management strengthened in this area.

During the year, £1.3m was invested in five acquisitions.

PHS Waterlogic Turnover grew from £1.1m to £3.3m, an increase of 200%.

Divisional operating profit before central costs improved from a loss of £21,000 to a profit of £0.9m with a margin of 26.2%.

During the year, Waterlogic established a national sales force capable of delivering strong organic growth in a rapidly growing market place. New products were launched, including the WL350, a new tabletop water dispenser aimed at the small office market (10 employees and under) and a new metallic silver version of the best selling product, the WL950. Marketing activity was focused on winning new customers as quickly as possible and an outside agency was utilised to maximise "hot leads". Contractual customer retention was 94% for the year.

In early January 2002, the Group announced an acquisition investment of £6.3m to purchase the main competitor in the point of use water dispensers market, The UK Water Group Limited. The post-acquisition integration process is on track and the merged business is aiming for rapid growth over the next few years.

People We aim to operate in a way that will create an environment to generate commitment from our people at every level. We stress the importance of creativity and innovation and provide the opportunity for our people to contribute their ideas to improving our business.

We believe in rewarding above average performance through bonuses, commissions and career progression and in the year we delivered nearly 6,000 training days for our staff. Currently we have 45 people on NEBS programmes and 73 people studying NVQs.

Wherever possible, we promote from within but on a regular basis bring in new talent from outside to keep the business alive with new ideas.

Outlook It is our goal to be the best workplace services' provider in the UK offering quality and value to our customers and a challenging, rewarding career for everyone in the Group.

With strong cash generation and low gearing, we are well placed to continue to grow organically and supplement that growth with selective acquisitions.

We expect to continue to deliver strong profit growth and operating cash inflow as well as maintain our unbroken record of year on year turnover growth. We look forward with confidence to the year ahead.

Peter Cohen
Chief Executive

FINANCIAL REVIEW

INCREASED TURNOVER AND OPERATING PROFIT SUPPLEMENTED BY REDUCED INTEREST CHARGES FROM REFINANCING

The Company successfully floated on the London Stock Exchange in June 2001. At the flotation price of 80p per share, the Group was valued at £413.6m.

The net proceeds of the flotation were £237.5m after the deduction of underwriting commissions and expenses payable by the Group. The proceeds were used for the repayment of certain bank debt and certain unsecured loan notes.

Results for the year ended 31 March 2002 Turnover from continuing operations increased to £114.7m from £94.4m, an increase of 21.5%. Turnover growth was achieved in all businesses from a combination of acquisitions and strong organic growth.

Operating profit from continuing operations increased to £33.6m from £26.9m, an increase of 24.9%. The operating profit margin has improved to 29.3% from 28.5%, through continued leveraging of the Group's infrastructure.

Pre-tax profit was £17.7m compared to a loss of £3.6m last year and basic earnings per share were 4.18p compared to a loss per share of 1.63p in the previous year.

Net cash inflow from operations was £35.9m compared to £30.3m in 2001.

Acquisitions Acquisitions form a core part of our growth strategy and during the course of the year, we invested £30.2m in 25 bolt-on acquisitions. These resulted in £30.8m of goodwill which has been capitalised on the balance sheet as an intangible asset. More detailed commentary on our amortisation of goodwill policy is provided in note 1 to the financial statements.

Disposals During the year, the Group disposed of both investments in overseas subsidiaries: PHS Inc (operating in the USA) and PHS Protector BV (operating in Belgium). Both investments were considered to be of an insufficient size to bolt-on local acquisitions or to warrant central management resource.

The consideration received for the sale of these investments, net of the disposal expenses incurred was £0.4m. The exceptional loss realised on these disposals was £1.0m.

Interest Interest payable and similar charges for the three months pre-flotation was £11.6m. This amount included an exceptional charge of £2.6m for previously unamortised issue costs that were written off on repayment of the pre-flotation borrowings, and an exceptional charge of £1.1m for the cancellation of an interest rate swap.

Interest payable on borrowings for the nine months post-flotation was £3.4m. This reduction in the post-flotation interest charge resulted from applying the flotation proceeds to significantly reduce borrowings.

Borrowings and gearing Net debt at the year-end was £69.5m compared to £67.2m at the half-year, and £289.1m at 31 March 2001.

The resulting net gearing was 28.5% compared to 29.4% at the half-year.

Cash flow The cash flows connected with the refinancing of the Group on flotation are summarised below:

	£m	£m
Finance inflows		
Proceeds from issue of ordinary shares at flotation	250.0	
Less: Expenses and commission paid	(12.5)	
		237.5
New bank loan drawn-down at flotation	68.6	
Less: Issue costs incurred	(0.8)	
		67.8
		305.3
Finance outflows		
Repayment of secured senior debt	146.1	
Repayment of unsecured subordinated loan notes	122.7	
Interest paid on secured senior debt	7.7	
Interest paid on unsecured subordinated loan notes	25.3	
Interest rate swap cancellation fee	1.1	
		(302.9)
		2.4

Cash inflow generated from operating activities was £35.9m compared to £30.3m in 2001. This improvement was achieved despite an increase in working capital requirements of £3.8m largely due to the growth in the business. In addition, the balance sheet at 31 March 2002 included a prepayment for stock that was paid during the year under the terms of a distributorship agreement linked to the acquisition of The UK Water Group Limited.

Free cash flow should continue to be principally reinvested into acquisitions.

Capital expenditure The Group spent £8.9m gross on capital expenditure, which represented 137% of its £6.5m depreciation charge. Sales of fixed assets raised £0.9m.

Our businesses are predominantly of a service or rental nature and consequently the majority of the capital spend relates to equipment installed at customers' premises that requires periodic replacement in addition to expansion and enhancement.

	Equipment at customers' premises £m	Other fixed assets £m	Total £m
Year ended 31 March 2002			
Cash outflow on capital expenditure	6.0	2.9	8.9
Depreciation charge	4.2	2.3	6.5
%	143%	126%	137%
Year ended 31 March 2001			
Cash outflow on capital expenditure	5.1	2.9	8.0
Depreciation charge	4.0	1.6	5.6
%	128%	181%	143%

Dividend The Board is recommending a final dividend of 0.29p per share, giving a total dividend for the year of 0.42p per share. The total dividend is covered 8.5 times by earnings.

If approved, the Group will pay the final dividend on 21 August 2002 to all shareholders registered on 26 July 2002.

Treasury The Group manages treasury risk centrally with the aim of minimising risk and providing sufficient cost-effective financing.

Liquidity The Group's policy on liquidity is to ensure a balance between continuity of funding and flexibility.

The Group had bank-borrowing facilities totalling £107.0m, of which £71.6m expires on 7 June 2006, and £35.4m expires on 7 June 2004. Of these facilities, £82.9m were utilised at 31 March 2002.

Since the year-end, we have utilised a further £18m of these facilities to purchase Teacrate plc, The Well Corporation Limited and two other smaller businesses. We agreed with our bankers to an increase in the facilities of £33.0m, which will expire on 7 June 2004. These additional facilities will be provided on a secured basis at existing interest rates.

Interest on borrowings The Group's interest on borrowings are largely denoted at floating rates of interest, and in the current environment of low gearing and high interest cover the Directors consider that the level of interest rate risk is acceptable.

Foreign exchange The Group trades principally in sterling. The effect of currency risk to the Group is therefore not deemed material although management continually reviews this.

Taxation The overall tax credit for the year is £0.8m. This results from accounting for deferred tax on a full provision basis in accordance with FRS 19 "Deferred tax". A deferred tax asset of £4.8m has been recognised, which arises predominantly as a consequence of depreciation charged exceeding capital allowances claimed to-date, and the carry forward of tax losses capable of being used to off-set future taxable profits.

The current tax charge on profits for the year is £4.0m, a rate of 23% on profits before tax. This is lower than the standard rate of corporation tax in the UK of 30% due mainly to the £1.6m effect of capital allowances claimed being in excess of depreciation charged in the year. The underlying level of this current year charge on profits, while rising slowly, should remain significantly below 30% for the foreseeable future.

Keith Bland
Group Finance Director

BOARD OF DIRECTORS

Robert David Mackenzie *Non-executive Chairman (age 49)*
Robert Mackenzie joined the Board of PHS as non-executive Chairman in September 2000. Prior to joining PHS, he was Chairman and Chief Executive of National Parking Corporation Limited, and Chairman of Greenflag Limited. He was also Group Finance Director of BET Plc from 1991 to 1994 and Group Finance Director of Storehouse plc and Chief Executive of Retail Operations from 1989 to 1990. From 1986 to 1989 he was a Financial Comptroller for Hanson plc.

Peter James Cohen *Chief Executive (age 49)*
Peter Cohen joined PHS as Chief Executive in April 1998. Prior to joining PHS he held the position of Chief Executive of Holt Lloyd Group Limited, a manufacturer and marketer of consumer care products, from 1991 to 1998. He was President of Power Conversion Inc./Crompton Eternacell from 1989 to 1991 and before that he was Managing Director of Crompton Vidor Limited and Hawker Siddeley Dynamics Engineering.

Keith Bland *Group Finance Director (age 50)*
Keith Bland joined PHS as an accountant in September 1984. In April 1989, he was appointed to the Board of PHS as the Finance Director. He previously worked as an accountant at Marconi Radar Systems Limited and International Ferry Freight Limited. Immediately before joining PHS, he was a senior auditor at the National Audit Office. He qualified as an accountant with George Little Sebire in London in December 1975.

John Muray Allan *Non-executive director (age 53)*
John Allan joined the Board of PHS as a non-executive director in June 2001 and is Chief Executive of Exel plc. He joined Ocean Group plc, as Chief Executive in September 1994 and in May 2000 Ocean Group and Exel (formerly NFC) merged to form Exel plc. Previously John Allan was appointed to the main board of BET in 1987, with specific responsibilities as Director of Business Services (Europe) and Group Marketing Director. He is a non-executive director of Wolseley Plc and a member of the CBI President's Committee. He was previously Chairman of the CBI Transport Policy Committee and also a former Chairman of the Marketing Society of Great Britain.

Jan Gunnar Astrand *Non-executive director (age 55)*
Jan Astrand joined the Board of PHS as a non-executive director in June 2001. He is also Chairman of Car Park Group AB in Sweden and a non-executive director of Northgate Plc. Prior to this he was President and Chief Executive of Axus International Inc. from 1994 to 1999. From 1989 to 1994 he was Finance Director for Hertz Europe Ltd. Between 1986 and 1988, he worked for Commodore International Ltd initially as Vice President of Finance for Europe and ultimately as Chief Financial Officer.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

for the year ended 31 March 2002

The Directors present their report and the audited financial statements for the year ended 31 March 2002.

Principal activity and business review

The Group is engaged in the provision of workplace services on customers' premises. There are four core business areas that have been operating throughout the year: washroom services, dust mat services, live and replica plants, and point of use water dispensers. The vast majority of customers have rental, service and maintenance contracts. A review of the Group's business and discussion of likely future developments is provided in the Chairman's statement, Chief Executive's review and Financial review on pages 4 to 12.

Results and dividends

Operating profit for the year was £33,567,000 (2001: £26,744,000).

The result for the year after taxation was a profit of £18,443,000 (2001: loss £3,342,000).

The Board recommends the payment of a final dividend of 0.29p per ordinary share (2001: £nil) and paid an interim dividend of 0.13p per ordinary share (2001: £nil) on 25 January 2002. Subject to approval by shareholders of the final dividend, a total dividend of 0.42p per ordinary share will be paid in respect of the year at a total cost of £2,172,000. If approved, the Group will pay the final dividend on 21 August 2002 to all shareholders registered on 26 July 2002.

Post balance sheet events

Details of all material post balance sheet events are given in note 33 to these financial statements.

Directors

The Directors of the Company at 31 March 2002 are listed on page 13. The following two Directors also sat on the Board from the beginning of the year until resigning on the dates shown.

S D Simpson	(resigned 5 June 2001)
L Giacomotto	(resigned 5 June 2001)

The Directors' remuneration and interests in shares, share options and debentures are shown in the Remuneration report on pages 16 and 17.

In accordance with the Articles of Association, all five Directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. Biographical details of each Director are given on page 13.

Details of the role of the Board, including the role of non-executive directors, are given in the Corporate governance statement on pages 18 and 19.

Policy on the payment of creditors

It is Group policy to comply with terms of payment negotiated with suppliers. Where payment terms are not negotiated the Group endeavours to adhere to the supplier's standard terms. The Company does not trade and consequently cannot disclose an average creditors payment period. The Group's average payment period in the year for the continuing businesses was 55 days (2001: 50 days).

Substantial shareholdings

As at 22 May 2002, the Group had been notified under Section 198 of the Companies Act 1985 of the following substantial shareholdings in the ordinary share capital of PHS Group plc.

Name of shareholder	Interest in ordinary share capital
SG Asset Management	10.0%
Fidelity International Limited	8.0%
Charterhouse General Partners (VI) Limited	7.0%
Axa Investment Managers	5.1%
CGNU plc	5.1%
Morley Fund Management Limited	5.1%

Employees

It is Group policy to ensure that employees are provided with information on all matters of concern to them. Accordingly, appropriate steps are taken to ensure that employees or their representatives are aware of the financial and economic factors affecting the Group's performance, are consulted wherever necessary and are encouraged generally to be involved in the Group's overall performance.

It is established Group policy to offer the same opportunities to disabled people as to all others in matters of recruitment and career advancement, provided they have the abilities to perform the tasks required, with or without training, and to provide retraining where necessary in cases when disability arises during employment with the Group.

Research and development

Technical development is considered an important part of the Group's ongoing advancement. Resources are employed in the development of new products or improving existing products to continuously improve the range and quality of products that we offer our customers.

All such expenditure is charged to the profit and loss account as incurred.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

By order of the Board

Keith Bland
Company Secretary

10 June 2002

REMUNERATION REPORT

Remuneration committee

The Remuneration committee is responsible for developing the Group's remuneration policy and determining the remuneration packages of the executive directors. It is composed of all three non-executive directors and chaired by J G Astrand.

Remuneration policy

The committee makes recommendations to the Board on the Group's framework of executive remuneration and its cost after giving full consideration to the matters set out in schedules A and B of the combined code. Where appropriate, reference is made to independent and authoritative surveys.

The committee's policy is to provide salary and other benefits to executive directors that are competitive with regard to those on offer at other comparable companies. The packages provided are intended to attract, retain and motivate each executive director to meet the Group's objectives and so enhance its performance. The committee will always have regard that it should avoid paying more than necessary for this purpose.

A strong link between the level of remuneration and individual performance against agreed targets is maintained. The performance-related element of each remuneration package forms a significant proportion of the total, designed to give the Directors incentive to perform at the highest levels for the ultimate benefit of the shareholders.

The committee will also consider compensation in the event of early termination of Director's contracts.

Executive share option scheme

The Company operates an executive share plan, the PHS Group Discretionary Share Option Scheme. The discretionary scheme is divided into two sections, Section A and Section B, under which options can be granted. Section B is an Inland Revenue approved scheme and grants to individuals are subject to the limit imposed by the Finance Act 1996 on the value of shares placed under option, currently £30,000.

The discretionary scheme is only available to employees and full-time Directors who may, from time to time, be selected by the Remuneration committee to participate. No eligible employee is entitled as of right to participate in the discretionary scheme. No payment is required on the grant of an option and no share options are granted at a discount.

In December 2001, options over 1,136,581 shares were granted. These options were subject to a performance criteria that they will only be exercisable if the Company's earnings per share over a three-year period grows at a rate greater than the increase in the Retail Prices Index plus 2% per annum.

Savings-related share option scheme

The PHS Group Savings Related Share Option Scheme is eligible to all employees, including executive directors.

Employees make monthly contributions of up to £250 per month over a three-year period. At the end of this period employees have the right to buy shares in the Company at a price fixed at the time of the option grant. The price per share at which options may be granted is not less than 80% of the mid-market price on the last day of dealing prior to the offer date.

Remuneration package

Both executive directors have a service agreement that specifies a notice period both to and from the Company of 12 months.

The present remuneration package for executive directors comprises:

Basic annual salary – this is reviewed and determined by the Remuneration committee.

Annual incentive bonus – each executive director is entitled to an annual bonus in respect of each financial year. The bonus is linked to the audited profit achieved by the Group in relation to budgeted profit.

Pensions – Both executive directors are members of the Group's defined contribution pension scheme to which the Group makes regular contributions as a percentage of annual salary.

Other benefits – these include health insurance, company car and fuel or car allowances. These benefits are not pensionable.

The Chairman and other non-executive directors have been initially appointed for a three-year period, which then automatically continues until terminated by three month's notice from either party. The Board has determined the remuneration of the Chairman and other non-executive directors for the initial three-year term at the time of approving their appointment.

Neither the Chairman nor other non-executive directors participate in the Group's pension scheme or bonus plans nor are they entitled to any benefits from the Company other than their agreed fees and reimbursement of reasonable expenses incurred in carrying out their duties.

Directors' interests in shares and debentures
The beneficial interests of the Directors and their families in the ordinary shares of the Company and loan notes issued by a subsidiary at 31 March are set out below:

	Interest in ordinary shares of the Company	
	31 March 2002 Number	31 March 2001* Number
R D Mackenzie	**2,045,452**	202,020
K Bland	**3,647,500**	400,000
P J Cohen	**7,290,000**	800,000
J M Allan	**134,756**	–
J G Astrand	**60,000**	–

	Interest in 10% fixed rate "C" unsecured loan notes 2009	
	31 March 2002 £	31 March 2001* £
K Bland	–	250,000
P J Cohen	–	1,000,000

*or date of appointment if later

The 10% fixed rate "C" unsecured loan notes 2009 were issued by PHS Holdings Limited, a subsidiary of the Company and were redeemed at par at the time of the flotation.

No Director has any beneficial interest in the share options that the Company has granted.

There has been no change in the interests stated between 31 March 2002, and the date on which these financial statements were signed on behalf of the Board.

Directors' remuneration
The emoluments of the Directors of the Company for the years ended 31 March are disclosed below:

	Basic salary or fees £'000	Annual bonus £'000	Other benefits £'000	**2002 Total £'000**	2001 Total £'000	**2002 Pension payments £'000**	2001 Pension payments £'000
Non-executive Chairman							
R D Mackenzie	73	–	–	**73**	78	–	–
Executive directors							
P J Cohen*	175	14	10	**199**	195	**45**	14
K Bland	96	8	10	**114**	104	**15**	14
Non-executive directors							
J M Allan	49	–	–	**49**	–	–	–
J G Astrand	49	–	–	**49**	–	–	–

*highest paid Director

None of the Directors has waived any part of their emoluments during the year.

J M Allan applied three years' annual fees paid in advance to purchase ordinary shares at flotation. If J M Allan ceases to be a Director before the expiry of the period for which his fees were paid in advance, a specified portion of the ordinary shares for which he subscribed using these annual fees will be liable to be repurchased for an aggregate price of £1.

S D Simpson and L Giacomotto resigned on 5 June 2001. Fees of £6,000 (2001: £33,000) were paid to Charterhouse Development Capital Limited in respect of their services. No other amounts were paid in respect of these two Directors, neither were they entitled to any compensation for loss of office.

CORPORATE GOVERNANCE

Combined Code

The Combined Code for Corporate Governance ("the code") contains both principles and best practice provisions. The manner in which the Group applies the provisions that relate to Board matters, internal controls and relations with shareholders are set out below. Provisions relating to Directors' remuneration are set out in the Remuneration report on pages 16 and 17.

Board of Directors

The Board comprises three non-executive (including the Chairman who is responsible for running the Board) and two executive directors (including the Chief Executive who is responsible for running the Group's business). The biographies of all Directors are detailed on page 13.

All three non-executive directors are independent of management and bring a range of business, finance and other relevant experience to the Group. R D Mackenzie has been appointed as the Senior Independent Director.

Each non-executive director has a letter of appointment approved by the Board with specified terms that covers a three-year period from appointment. Both executive directors have a service agreement that specifies a notice period both to and from the Company of one year.

The Board has a formal schedule of matters specifically reserved for its attention. This schedule includes any question regarding the appointment or removal of the Company Secretary, as well as the constitution and terms of reference of each of the Remuneration, Nomination and Audit committees.

Following their appointment to the Board in June 2001, both J M Allen and J G Astrand participated in an induction program designed to give them appropriate training to properly fulfil their roles as non-executive directors. This program involved meetings with, and presentations from, appropriate senior management combined with visits to a number of operational depots.

The Board has met six times since the flotation on 29 June 2001, supplemented by frequent contact between meetings. The future intention is for the Board to routinely meet nine times each year, with additional meetings called as and when required.

At least one week before each Board meeting, each Director is supplied with an agenda and sufficient supporting papers that provide the appropriate information required for him to properly discharge his duties. Included within these papers are detailed monthly accounts for each of the Group's operating divisions as well as on an overall basis. The accounts are supplemented by written reports from the executive directors and appropriate financial analysis. Other papers deal with the cash flow position of the Group and proposals regarding future potential acquisitions. The monthly accounts and analysis are also circulated in months where no Board meeting is held.

The papers may not always be sufficient to provide the Board with all the information they require. In such instances, senior management are always available to answer any further questions that may arise. The Board constantly reviews the quality, nature and presentation of information provided and request changes where they feel such changes will offer information that is more appropriate.

All Directors have the right to seek external professional advice in the furtherance of their duties at the expense of the Group and have unfettered access to the advice and services of the Company Secretary.

The three principal committees of the Board are the Remuneration committee, Audit committee and Nomination committee. Each committee has its own terms of reference that has been approved by the Board.

Remuneration committee

The constitution and work of the Remuneration committee is set out in the Remuneration report on pages 16 and 17.

Nomination committee

The Nomination committee makes recommendations to the Board on the appointment of Directors and the management of Board succession.

The committee operates according to written terms of reference. These include consideration of the size and structure of the Board; the appointment and duties of executive directors and their continuation (or not) in service; the appointment and re-appointment of non-executive directors; and whether Directors retiring in accordance with the Articles of Association should be put forward for re-election.

The committee comprises all three non-executive directors and is chaired by J M Allan. A minimum of one meeting per financial year is held with additional meetings called as and when any member requires.

The Nomination committee will constantly review the composition of the Board to ensure that it contains the necessary skills, knowledge and experience to properly discharge its duties. The Articles of Association provide that any Director appointed by the Board must retire from office, but may submit him or herself for re-election, at the first subsequent Annual General Meeting. In addition, any Director who, at the date of any Annual General Meeting, will have held office for more than 30 months since appointment, or re-appointment at a General Meeting, must retire from office at that Annual General Meeting, but may submit him or herself for re-election.

Audit committee

The Audit committee assists the Board in determining whether it is properly discharging its responsibilities for financial reporting and corporate governance (including matters pertaining to the Group's internal control systems).

The committee comprises all three non-executive directors and is chaired by R D Mackenzie. Meetings are routinely held twice annually with additional meetings held at the behest of either the Chairman or external auditors.

The committee operates according to written terms of reference. These include reviewing the scope and results of the audit, its cost-effectiveness and the auditors' independence and objectivity. The committee also maintains a review of the volume of non-audit services provided in order to balance the objectivity of the auditors with value for money.

The Audit committee will review the interim and annual financial statements before submission to the Board for approval. The review will consider (but is not limited to) the accounting policies adopted; areas where major judgments have been exercised; compliance with accounting standards, stock exchange, legal and other regulatory requirements. The committee will also consider any matters arising from any audit, whether communicated verbally or in writing, and give due consideration to any action recommended.

As part of the terms of reference of the Audit committee, it is responsible for monitoring management's commitment to establishing and operating a sound system of internal control. It is also responsible for reviewing, at least annually, the effectiveness of the internal control system (including financial, operational, compliance controls and risk management).

Internal control
The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness. Internal control is defined in the code as all controls, including financial, operational and compliance and risk management. Any such system of internal control can, however, only provide reasonable, but not absolute assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the system of internal control in place during the year.

The key features of the Group's system of internal control which have been established are as follows:

- Identification and evaluation of key risks applicable to each area of business is monitored and assessed on a continuous basis at executive committee and Board level. This is supplemented by the annual process of preparing business plans and detailed budgets, and the half-year review process;
- The production of accurate and timely financial management information reported against budget and forecast to the Board;
- The control of key financial risks through clearly laid down authorisation levels and proper segregation of accounting duties;
- Regular executive committee meetings of the Group's most senior managers and executive directors;
- The integrity and competence of personnel is ensured through high recruitment standards and subsequent training courses. High quality personnel are seen as an essential part of the control environment;
- Capital expenditure is regulated by the annual budget and half-year review process. For investment in business acquisitions, detailed written proposals need to be submitted to the Board. Due diligence reviews are performed by the Group's own staff along with extensive use of external advisers.

Shareholder communication
Communications with shareholders is given a high priority by the Group with both executive directors regularly meeting with institutional investors and analysts. Private investors have the opportunity to meet and question the Directors at the Annual General Meeting. It is Group policy to respond to any written requests from shareholders throughout the year.

It is the Group's policy to propose a separate resolution on each substantially separate issue at the Annual General Meeting. The level of proxies lodged, together with the number for and against each resolution, will be announced once dealt with by a show of hands at the meeting.

The Chairman of the Board will make every effort to ensure that the respective chairs of the Remuneration, Nomination and Audit committees will be present at the Annual General Meeting and available to take relevant questions from the floor.

Going concern
The Board have reviewed and approved the Group's budget for the financial year ending March 2003 and projections for future years. After taking account of the cash flow implications, including proposed capital expenditure, and considering the availability of borrowing facilities, the Board have concluded that it is appropriate to prepare the accounts of both the Group and Company on a going concern basis.

Compliance
Throughout the year to 31 March 2002, the Group has, with the exception of the matters noted below, complied with the provisions of the code. The exceptions arose because the Group did not gain entry to the London Stock Exchange until June 2001.

The only exceptions were that the Nomination and Remuneration committees were constituted with effect from the date of admission to the London Stock Exchange.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

The Directors are also responsible for the maintenance and integrity of the Group's website. Uncertainty regarding legal requirements is compounded as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PHS GROUP PLC

We have audited the financial statements which comprise the Consolidated profit and loss account, Consolidated balance sheet, Company balance sheet, Consolidated cash flow statement, Consolidated statement of total recognised gains and losses and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, Chief Executive's review, Financial review, Remuneration report, Directors' report and Corporate governance statement.

We review whether the Corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company or Group's corporate governance procedures or its risk and control procedures.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Cardiff

10 June 2002

CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2002

	Notes	Continuing operations before exceptional items £'000	Exceptional items and discontinued operations £'000	**Year ended 31 March 2002 Total £'000**	Year ended 31 March 2001 Total £'000
Turnover	2				
Continuing operations		114,665	–	**114,665**	94,429
Discontinued operations		–	402	**402**	2,639
		114,665	402	**115,067**	97,068
Net operating expenses	3				
Continuing operations		(81,096)	–	**(81,096)**	(67,536)
Discontinued operations		–	(404)	**(404)**	(2,788)
		(81,096)	(404)	**(81,500)**	(70,324)
Operating profit/(loss)	2, 3				
Continuing operations		33,569	–	**33,569**	26,893
Discontinued operations		–	(2)	**(2)**	(149)
		33,569	(2)	**33,567**	26,744
Loss on disposal of subsidiary undertakings	4	–	(969)	**(969)**	–
Interest receivable and similar income		31	–	**31**	–
Interest payable and similar charges	6	(11,335)	(3,638)	**(14,973)**	(30,386)
Profit/(Loss) on ordinary activities before taxation		22,265	(4,609)	**17,656**	(3,642)
Tax on profit/(loss) on ordinary activities	7			**787**	300
Profit/(Loss) on ordinary activities after taxation				**18,443**	(3,342)
Dividends paid and proposed	8			**(2,172)**	–
Retained profit/(loss) for the year	23			**16,271**	(3,342)
Earnings/(Loss) per share	9				
Basic earnings/(loss) per share				**4.18p**	(1.63p)
Diluted earnings/(loss) per share				**4.18p**	(1.63p)

Continuing operations include the results of acquisitions made during the year. It is not practicable to determine the post-acquisition results to the end of the year of acquisition. This is due to the trade and assets of the companies or businesses acquired being incorporated into the existing trade and assets of the Group and consequently, their results are not separately identifiable post-acquisition.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 2002

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Profit/(Loss) for the financial year	**18,443**	(3,342)
Currency translation differences on foreign currency net investments	–	36
Total recognised gains/(losses) relating to the year	**18,443**	(3,306)
Prior year adjustment – change in accounting policy	–	(154)
Total gains/(losses) recognised since the last financial statements	**18,443**	(3,460)

BALANCE SHEETS
at 31 March 2002

		Group		Company	
	Notes	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
Fixed assets					
Intangible assets	10	**307,990**	278,398	–	–
Tangible assets	11	**26,894**	24,570	–	–
Investments	12	–	–	**312,586**	200
		334,884	302,968	**312,586**	200
Current assets					
Stocks	13	**2,701**	2,243	–	–
Debtors	14	**34,135**	21,711	**5,182**	1,630
Cash		**9,418**	488	**873**	108
		46,254	24,442	**6,055**	1,738
Creditors: Amounts falling due within one year	15	**(34,005)**	(22,339)	**(1,851)**	–
Net current assets		**12,249**	2,103	**4,204**	1,738
Total assets less current liabilities		**347,133**	305,071	**316,790**	1,938
Creditors: Amounts falling due after more than one year	16	**(67,963)**	(283,028)	**(67,931)**	–
Provisions for liabilities and charges	19	–	–	**(249)**	–
Accruals and deferred income	20	**(35,251)**	(31,904)	–	–
Net assets/(liabilities)	2	**243,919**	(9,861)	**248,610**	1,938
Capital and reserves					
Called up share capital	22	**51,705**	202	**51,705**	202
Share premium account	23	**187,724**	1,718	**187,724**	1,718
Profit and loss account	23	**4,490**	(11,781)	**9,181**	18
Equity shareholders' funds/(deficit)	24	**243,919**	(9,861)	**248,610**	1,938

The financial statements on pages 22 to 44 were approved by the Board of Directors on 10 June 2002 and were signed on its behalf by:

P J Cohen
Director

K Bland
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March 2002

	Notes	**Year ended 31 March 2002 £'000**	Year ended 31 March 2001 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**33,567**	26,744
Depreciation		**6,454**	5,568
Profit on disposal of tangible fixed assets		**(324)**	(123)
Increase in stocks		**(3)**	(432)
(Increase)/Decrease in debtors		**(5,444)**	254
Increase/(Decrease) in creditors		**1,671**	(1,716)
Net cash inflow from operating activities		**35,921**	30,295
Returns on investments and servicing of finance	25	**(38,457)**	(12,578)
Taxation paid		**(1,970)**	(97)
Capital expenditure	25	**(7,950)**	(7,641)
Acquisitions and disposals	25	**(17,911)**	(15,270)
Equity dividends paid		**(672)**	-
Cash outflow before financing		**(31,039)**	(5,291)
Financing	25	**39,969**	3,793
Increase/(Decrease) in cash	26	**8,930**	(1,498)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 March 2002

1 Principal accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention in accordance with applicable Accounting Standards in the United Kingdom and, except for the treatment of the amortisation of goodwill described below, comply with the Companies Act 1985. An explanation of this departure from the requirements of the Companies Act is given below.

A summary of the more important accounting policies is set out below.

New accounting standards
The Company and Group adopted two new accounting standards in the year, namely FRS 18 "Accounting policies" and FRS 19 "Deferred tax".

FRS 18 "Accounting policies" was fully implemented during the year. All existing accounting policies were reviewed in detail and considered most appropriate to the circumstances of both the Company and Group. Consequently, no revision of accounting policies was necessary, other than the implementation of FRS 19 "Deferred tax" as described below.

Use of estimates
The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts shown in the financial statements. Actual amounts could differ from those estimates.

Basis of consolidation
The financial statements have been consolidated under the acquisition accounting method.

The Company has taken advantage of the exemption from presenting its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

Income recognition
Turnover represents the invoiced value of goods sold and the rentals receivable on operating leases (as described further below), exclusive of valued added tax.

Operating leases

i) As lessor

Assets on hire to customers are capitalised and depreciated as noted below. Rentals receivable are credited to the profit and loss account on a straight-line basis, over the lease term. Income is recognised from the day of inception of the lease. Amounts received in advance are shown in the balance sheet as deferred income.

ii) As lessee

Lease payments are charged to the profit and loss account on a straight-line basis over the lease term.

Research and development
Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Tangible fixed assets
The cost of tangible fixed assets is their purchase cost, together with any incidental expenses that are directly attributable to the acquisition.

Depreciation is calculated to write off the cost of tangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates of depreciation used are as follows:

Freehold land	–	Not depreciated
Freehold property	–	50 years
Short leasehold property	–	Over the lease term
Equipment installed at customers' premises	–	1 to 5 years
Other equipment and vehicles	–	3 to 10 years
Tooling	–	4 years

Goodwill
Purchased goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired.

Goodwill in respect of acquisitions made is shown as an asset and, in accordance with FRS 10 "Intangible assets and goodwill", each acquisition is assessed to determine the useful economic life of the business and the goodwill. For the types of business acquired by the Group to date, the Board considers that the goodwill is an inseparable part of the total value of the relevant business. These are service businesses that are not subject to high volatility in fashions or markets and demand for these services is likely to continue for the foreseeable future. Such businesses, if properly managed, should grow in value over the years and hence neither the value of the business nor the goodwill has a measurable economic life. Where it is considered that the value of the business or its goodwill does have a measurable economic life, any related goodwill would be amortised through the profit and loss account by equal instalments over such useful economic life. In this context, the useful economic life of the businesses and goodwill are reviewed annually and revised where appropriate.

In the event that the useful economic life does not exceed 20 years, goodwill would be subject to an impairment review at the end of the year of acquisition and at any other time when the Directors believe that impairment may have occurred. Where the goodwill is assigned a useful economic life that is in excess of 20 years or is indefinite, the value of the relevant businesses and goodwill is assessed for impairment against carrying values on an annual basis in accordance with FRS 11 "Impairment of fixed assets and goodwill". Any impairment is charged to the profit and loss account in the period in which it arises.

The Group has acquired a number of businesses in the year as detailed in note 29. The Directors have reviewed these acquisitions and consider that these businesses and the associated goodwill have an indefinite useful economic life and the goodwill is therefore not being amortised.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1 Principal accounting policies (continued)

This treatment represents a departure from the requirements of the Companies Act 1985, which does not permit an indefinite useful economic life. The departure is, however, in the opinion of the Directors, necessary for the financial statements to give a true and fair view in accordance with applicable accounting standards. If this goodwill were amortised over a 20-year period, the profit before tax for the year ended 31 March 2002 would be reduced by £14,682,000 (2001: loss before tax would be increased by £13,500,000), with a corresponding reduction in reserves and intangible assets.

Investments
Investments held as fixed assets are stated at cost less provision for any impairment in value.

Stocks
Stocks are stated at the lower of cost and net realisable value, which takes account of any provision necessary to recognise damage and obsolescence. Cost is based on a FIFO measure and includes labour, materials, transport and directly attributable overheads.

Financial liabilities and issue costs
All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs are charged to the profit and loss account together with the coupon, as finance costs, on a constant yield basis over the term of the borrowings, or over a shorter period where the lender can require earlier payment.

Financial instruments
Interest rate swap agreements are used to minimise interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised as adjustments to interest expense over the period of the contracts. Other financial instruments are held on a historical cost basis.

Finance leases
Leasing agreements (including equivalent hire purchase agreements) which transfer to the Company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the useful economic lives of the equivalent owned assets or period of lease if shorter.

Deferred taxation
FRS 19 "Deferred tax" has been adopted in the preparation of these financial statements. The standard requires full provision to be made for deferred tax arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in tax computations, where future payment or receipt is more likely than not to occur. In adopting FRS 19, the Group has chosen not to discount deferred tax assets and liabilities. The prior year adjustment required by this change in accounting policy is nil, as explained in note 7.

Foreign exchange
Transactions expressed in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Foreign currency assets and liabilities are translated at exchange rates prevailing at the balance sheet date. Any differences are taken to the profit and loss account.

Government grants
Grants in respect of expenditure on fixed assets are included as deferred income and recognised in the profit and loss account over the expected useful economic lives of the related assets. Revenue based grants are recognised in the profit and loss account in the period to which they relate.

Pension costs
The Group operates a defined contribution pension scheme for eligible employees. Pension costs represent contributions payable to the scheme for the year.

2 Turnover and segmental reporting

An analysis of the Group's turnover is set out below:

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Continuing operations		
Rental (operating leases)	**102,428**	87,031
Sales	**12,237**	7,398
	114,665	94,429
Discontinued operations		
Rental (operating leases)	**402**	2,639
	115,067	97,068

An analysis of the Group's turnover and operating profit, by class of business, is set out below:

	Year ended 31 March 2002			Year ended 31 March 2001		
	Turnover £'000	**Operating profit/(loss) £'000**	***Profit margin***	Turnover £'000	Operating profit/(loss) £'000	*Profit margin*
Continuing operations						
PHS Washrooms: *Washroom services*	**83,785**	**39,970**	***47.7%***	67,226	32,605	*48.5%*
PHS Treadsmart: *Dust mat services*	**13,524**	**3,370**	***24.9%***	12,578	2,567	*20.4%*
PHS Greenleaf: *Live and replica plants*	**14,065**	**1,984**	***14.1%***	13,496	1,685	*12.5%*
PHS Waterlogic: *Point of use water dispensers*	**3,291**	**862**	***26.2%***	1,129	(21)	*(1.9)%*
	114,665	**46,186**	***40.3%***	94,429	36,836	*39.0%*
Central costs						
Normal	–	**(11,712)**		–	(9,672)	
Exceptional	–	**(905)**		–	(271)	
	114,665	**33,569**	***29.3%***	94,429	26,893	*28.5%*
Discontinued operations	**402**	**(2)**		2,639	(149)	
	115,067	**33,567**	***29.2%***	97,068	26,744	*27.6%*

Turnover and operating profit/(loss) from continuing operations are principally earned and sourced from the United Kingdom. Turnover and operating loss from discontinued operations relate solely to the operations of PHS Inc and PHS Protector BV (see note 4).

Exceptional central costs comprise non-recurring expenditure on the integration of acquisitions into the Group's existing operations including redundancy costs, payments for termination of leases and other restructuring costs.

An analysis of the Group's net assets at 31 March, by class of business, is set out below:

	2002 £'000	2001 Restated £'000
PHS Washrooms: *Washroom services*	**269,222**	244,527
PHS Treadsmart: *Dust mat services*	**14,221**	13,499
PHS Greenleaf: *Live and replica plants*	**16,479**	16,093
PHS Waterlogic: *Point of use water dispensers*	**12,710**	5,193
	312,632	279,312
Less: Group net debt	**(69,536)**	(289,086)
Less: Proposed dividends	**(1,500)**	–
Add: Taxation	**2,323**	(87)
	243,919	(9,861)

Net assets are principally located in the United Kingdom.

The Directors have reviewed the basis on which net assets are apportioned and revised the method of allocation of certain central assets and liabilities. Consequently, the comparative balances have been restated.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 Net operating expenses and operating profit

An analysis of the Group's net operating expenses is set out below:

	Year ended 31 March 2002			Year ended 31 March 2001		
	Continuing operations £'000	Discontinued operations £'000	**Total £'000**	Continuing operations £'000	Discontinued operations £'000	Total £'000
Change in stocks	39	(42)	**(3)**	(450)	18	(432)
Own work capitalised	(1,280)	–	**(1,280)**	(1,052)	–	(1,052)
Raw materials and consumables	12,875	62	**12,937**	9,469	134	9,603
Employee costs (Note 5)	40,844	251	**41,095**	34,960	1,712	36,672
Depreciation	6,427	27	**6,454**	5,344	224	5,568
Other operating charges	22,191	106	**22,297**	19,265	700	19,965
	81,096	404	**81,500**	67,536	2,788	70,324

Included within depreciation above is £40,000 (2001: £55,000) of depreciation on assets held under hire purchase leases.

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Rentals under operating leases:		
Land and buildings	**762**	707
Plant and machinery	**3,706**	3,633
Other assets	**422**	49
Fees paid to auditors:		
Audit services (Company: £nil)	**75**	49
Other services	**95**	27
Property rents receivable	**(108)**	(95)
Grant income	**(80)**	(80)
Profit on disposal of tangible fixed assets	**(324)**	(123)

In addition to the amounts noted above, fees of £723,000 (2001: £121,000) have been paid to the Group's auditors for non-audit services. £173,000 (£121,000) of these fees were paid and capitalised within goodwill in respect of acquisitions during the year and £550,000 (2001: £nil) were paid and written off against the share premium account in respect of the flotation.

4 Loss on disposal of subsidiary undertakings

During the year, the Group disposed of its investments in the entire issued share capital of both PHS Inc and PHS Protector BV. PHS Inc is a US-registered company and PHS Protector BV a Belgian-registered company; both companies operated solely in their domestic markets.

Total consideration received for the companies was £357,000 (net of selling expenses of £220,000). Net assets disposed of were £1,326,000 (including purchased goodwill of £994,000). This generated a loss on disposal of discontinued operations of £969,000. The taxation impact of this loss on disposal is £nil.

5 Directors and employees
Directors' emoluments for the year comprise:

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Salaries for management services	**293**	271
Fees	**171**	78
Other emoluments (including benefits in kind)	**20**	19
	484	368
Contributions to money purchase pension schemes	**60**	28
	544	396

In addition to the emoluments shown above, fees of £6,000 (2001: £33,000) were paid to Charterhouse Development Capital Limited in respect of the services of S D Simpson and L Giacomotto, both of whom resigned on 5 June 2001.

Further details of Directors' emoluments and of the highest paid Director are given in the Remuneration report on pages 16 and 17 which forms part of these financial statements.

The average monthly number of persons (including executive directors) employed by the Group during the year was:

	Year ended 31 March 2002 Number	Year ended 31 March 2001 Number
Administration	**391**	330
Sales	**385**	325
Service	**1,355**	1,212
	2,131	1,867

Employee costs for the above persons were:

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Wages and salaries	**36,969**	32,772
Social security costs	**3,381**	3,154
Other pension costs	**745**	746
	41,095	36,672

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 Interest payable and similar charges

	Interest before exceptional items £'000	Exceptional items £'000	**Year ended 31 March 2002 Total £'000**	Year ended 31 March 2001 Total £'000
In respect of borrowings repaid in the year				
Interest payable on secured senior debt	3,714	–	**3,714**	14,941
Interest payable on unsecured subordinated loan notes	3,559	–	**3,559**	13,130
Amortisation of issue costs	644	2,576	**3,220**	2,244
Exceptional interest rate swap cancellation fee	–	1,062	**1,062**	–
	7,917	3,638	**11,555**	30,315
Other interest payable				
On bank loans and overdrafts	3,050	–	**3,050**	39
Amortisation of issue costs	113	–	**113**	–
On acquisition loan notes	251	–	**251**	–
On finance and hire purchase agreements	4	–	**4**	32
	3,418	–	**3,418**	71
	11,335	3,638	**14,973**	30,386

Bank interest payable and receivable have been netted off to reflect the substance of the Group's banking arrangements.

No interest has been capitalised during the year (2001: £nil).

The exceptional items were £2,576,000 in respect of the write-off of previously unamortised issue costs related to the borrowings repaid in the year and £1,062,000 for the cancellation of an interest rate swap.

7 Tax on profit/(loss) on ordinary activities

(a) Analysis of credit in the year

The taxation credit is made up as follows:

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Current tax		
UK corporation tax on profits for the year	**4,043**	–
Adjustments in respect of prior periods	**(27)**	(300)
	4,016	(300)
Deferred tax		
Origination and reversal of timing differences	**(4,803)**	–
	(787)	(300)

(b) Factors affecting the current tax charge/(credit) for the year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Profit/(Loss) before taxation	**17,656**	(3,642)
Profit/(Loss) multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%)	**5,297**	(1,093)
Effects of:		
Temporary differences between taxable and accounting profit:		
Accelerated capital allowances	**(1,562)**	(1,064)
Losses	–	2,232
Prior year credit	**(27)**	(300)
Permanent differences	**308**	(75)
Current tax charge/(credit) for the year (note 7(a))	**4,016**	(300)

7 Tax on profit/(loss) on ordinary activities (continued)
The deferred tax asset/(liability) is made up as follows:

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Accelerated depreciation over capital allowances	**3,505**	–	–	–
Capital gains/revaluations	**(249)**	–	**(249)**	–
Tax losses carried forward	**1,545**	–	–	–
	4,801	–	**(249)**	–

The movement on the deferred tax asset/(liability) is as follows:

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
At 1 April	–	–	–	–
Transferred in from acquired company	**(2)**	–	–	–
Profit and loss account	**4,803**	–	**(249)**	–
At 31 March	**4,801**	–	**(249)**	–

At 31 March 2001, the Group did not expect to have sufficient taxable profits from which the reversal of the underlying timing differences could be deducted. This was because the Group was highly geared and interest costs were expected to continue in excess of any taxable profits. Since flotation, the Group's capital structure has changed and the underlying timing differences are now more likely than not to reverse. Consequently, the adoption of FRS 19 "Deferred tax" does not impact the results for the year ended 31 March 2001.

8 Dividends paid and proposed

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Equity – Ordinary shares of 10p each		
Interim dividends paid: 0.13p (2001: nil) per ordinary share	***672***	–
Final dividends proposed: 0.29p (2001: nil) per ordinary share	**1,500**	–
	2,172	–

There are no arrangements under which any shareholder has agreed to waive an entitlement to receive dividends.

9 Earnings/(Loss) per share
Basic and diluted earnings/(loss) per share has been calculated in accordance with FRS 14 "Earnings per share". The data used in the calculations is as follows:

	Basic EPS	Dilutions	**Diluted EPS**
Year ended 31 March 2002			
Profit after taxation (£'000)	18,443	–	18,443
Weighted average number of shares in issue ('000 shares)	440,847	191	441,038
Earnings per share	**4.18p**		**4.18p**
Year ended 31 March 2001			
Loss after taxation (£'000)	(3,342)	–	(3,342)
Weighted average number of shares in issue ('000 shares)	204,526	–	204,526
Loss per share	(1.63p)		(1.63p)

The adjustments between the calculation of basic and diluted EPS reflect the grant of share options under the Group's sharesave scheme in 2001.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10 Intangible fixed assets

Group	Purchased Goodwill £'000
Cost and net book value	
At 1 April 2001	278,398
Adjustments to prior year provisional fair values	(168)
Additions	30,754
Reduction on the sale of subsidiaries (see note 4)	(994)
At 31 March 2002	**307,990**

Additions to purchased goodwill represent the purchase of goodwill associated with the Group's acquisition of subsidiary undertakings and unincorporated businesses during the year, as detailed in note 29.

Goodwill arising on a number of the acquisitions made in the year can be determined only on a provisional basis because the fair values of the purchase consideration and net assets acquired cannot yet be finally determined.

Adjustments to prior year provisional fair values comprise revisions to the fair values of both the net assets acquired and consideration paid recognised at 31 March 2001. The revisions to the fair values of the net assets relate to alignment of accounting policies with acquisitions undertaken in the latter part of the year to 31 March 2001 where final information was not available at the time of preparing the financial statements for that year.

During the year ended 31 March 2002, the Group acquired a number of businesses. The Directors have reviewed these acquisitions along with the Group's underlying business and in accordance with the policy described in note 1, consider that these businesses and associated goodwill have an indefinite useful economic life and consequently the goodwill is not being amortised.

11 Tangible fixed assets

Group	Freehold property £'000	Short leasehold property £'000	Equipment installed at customers' premises £'000	Other equipment and vehicles £'000	Tooling £'000	Total £'000
Cost						
At 1 April 2001	11,100	583	18,432	9,805	2,178	42,098
Additions	98	275	6,028	1,678	383	8,462
Disposals	(433)	(20)	(3,747)	(1,304)	(22)	(5,526)
Acquisition of subsidiary undertakings	548	–	338	386	–	1,272
Sale of subsidiary undertakings	–	(8)	(615)	(293)	–	(916)
At 31 March 2002	**11,313**	**830**	**20,436**	**10,272**	**2,539**	**45,390**
Accumulated depreciation						
At 1 April 2001	(111)	(113)	(10,960)	(4,829)	(1,515)	(17,528)
Charge for the year	(111)	(77)	(4,233)	(1,732)	(301)	(6,454)
Disposals	–	19	3,743	1,123	22	4,907
Sale of subsidiary undertakings	–	1	387	191	–	579
At 31 March 2002	**(222)**	**(170)**	**(11,063)**	**(5,247)**	**(1,794)**	**(18,496)**
Net book value						
At 31 March 2002	**11,091**	**660**	**9,373**	**5,025**	**745**	**26,894**
At 31 March 2001	10,989	470	7,472	4,976	663	24,570

The net book value of assets held under hire purchase leases is £111,000 (2001: £151,000).

12 Investments

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost and net book value			
At 1 April 2001	200	–	200
Additions	–	312,386	312,386
At 31 March 2002	**200**	**312,386**	**312,586**

The principal subsidiary undertakings of the Company are set out below. The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A full list of subsidiary undertakings at 31 March 2002 will be annexed to the Company's next Annual Return.

Name	Class of capital	Proportion of shares held	Principal activity
Personnel Hygiene Services Limited	£1 ordinary shares	100% (indirect)	Provision of workplace services at customer premises
PHS Western Limited	£1 ordinary shares	100% (direct)	Intermediate holding company
PHS All Clear Limited	£1 ordinary shares	100% (indirect)	Clinical waste collection and disposal
PHS Holdings Limited	£1 ordinary shares	100% (direct)	Intermediate holding company
	£1 preference shares	100% (indirect)	
PHS Investments Limited	Class "A" 10p ordinary shares	100% (indirect)	Intermediate holding company
	Class "B", "C", "D" and "E" 1p ordinary shares	100% (indirect)	

Companies are incorporated in the United Kingdom and registered in England and Wales.

13 Stocks

Group	2002 £'000	2001 £'000
Raw materials	**225**	219
Finished goods	**2,476**	2,024
	2,701	2,243

14 Debtors

	Group		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Falling due within one year:				
Trade debtors	**26,477**	19,940	–	–
Amounts owed by group undertakings	–	–	**5,023**	1,630
Other debtors	**128**	188	**14**	–
Recoverable deferred tax	**575**	–	–	–
Prepayments and accrued income	**2,055**	1,583	**145**	–
	29,235	21,711	**5,182**	1,630
Falling due after more than one year:				
Recoverable deferred tax	**4,226**	–	–	–
Prepayments and accrued income	**674**	–	–	–
	34,135	21,711	**5,182**	1,630

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15 Creditors: amounts falling due within one year

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Bank and other borrowings (see note 17)	**10,991**	6,546	**–**	–
Trade creditors	**6,597**	5,841	**–**	–
Amounts owed to group undertakings	**–**	–	**125**	–
Dividends payable	**1,500**	–	**1,500**	–
Other creditors	**7,967**	6,558	**223**	–
Corporation tax	**2,478**	87	**3**	–
Other taxation and social security	**4,472**	3,307	**–**	–
	34,005	22,339	**1,851**	–

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Bank and other borrowings (see note 17)	**67,963**	283,028	**67,931**	–

17 Bank and other borrowings

	Group		Company	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Amounts falling due within one year:				
Secured senior debt	**–**	5,938	**–**	–
Deferred consideration loan notes	**10,883**	565	**–**	–
Obligations under hire purchase leases	**108**	43	**–**	–
	10,991	6,546	**–**	–
Amounts falling due after more than one year:				
Bank loan	**67,931**	–	**67,931**	–
Secured senior debt	**–**	140,085	**–**	–
Unsecured subordinated loan notes	**–**	142,902	**–**	–
Obligations under hire purchase leases	**32**	41	**–**	–
	67,963	283,028	**67,931**	–

The unsecured subordinated loan notes and secured senior debt were repaid in full at the time of the flotation in June 2001.

The bank loan and deferred consideration loan notes are secured by a guarantee and debenture dated 29 June 2001. Under the terms of the guarantee the security granted by the Group can be summarised as follows:

Asset	Nature of Security	Value of security
All freehold and leasehold land and buildings held at 29 June 2001	First legal mortgage	Unlimited
All freehold and leasehold land acquired subsequent to 29 June 2001	First fixed charge	Unlimited
All plant and machinery	First fixed charge	Unlimited
All book debts, securities, goodwill, uncalled capital, intellectual property rights and cash	First fixed charge	Unlimited
All other assets	Floating charge	Unlimited

The bank loan bears interest at LIBOR plus a margin that may vary between 0.9% and 1%. The debt is repayable in full in June 2006.

The deferred consideration loan notes were issued as partial consideration for a number of the Group's acquisitions made in the two years to 31 March 2002. The ultimate redemption date of each loan note falls within either 2003 or 2004 but each is capable of redemption at the option of the holder within one year of the balance sheet date.

Of the total balance of deferred consideration loan notes, £1,246,000 pays interest at 1.5% below LIBOR, £7,655,000 at 1% below LIBOR and the remaining £1,982,000 at a fixed annual rate of 5%.

Hire purchase leases are secured on the assets under lease and bear interest at an implicit rate of between 7% and 8% per annum.

18 Financial instruments

The principal financing and treasury exposures facing the Group relate to working capital management, the financing of acquisitions and tangible fixed assets, the management of interest rate positions and the investment of surplus cash.

Prior to the flotation, the Group generally followed a strategy of using long-term borrowings in specific circumstances, including subordinated unsecured loan notes and senior debt facilities, to finance its acquisitions. Since the flotation, the strategy has been to use internally-generated cash and long-term bank loans to finance its acquisitions.

The Group's functional and reporting currency is sterling. Since the Group sold its investments in both overseas subsidiaries early in the year and has little trade in other currencies, the currency exposures faced are minimal. The Group has a continuing strategy of not holding any hedging for foreign exchange management.

The Group borrows at both fixed and floating rates of interest and has the objective of managing interest rate risks. The Group hedged its risks in respect of the borrowings that were repaid as a result of the flotation through the use of interest rate swaps. The Group has not subsequently hedged its risks because in the current environment of low gearing and high interest cover, the Directors consider that the level of interest rate risk is acceptable.

The Group also has financial instruments in the form of short-term debtors and creditors that arise in the normal course of business. Short-term debtors and creditors have been excluded from the disclosures that follow.

(a) Interest rate and currency risk profile of financial liabilities and assets

The fixed and floating interest rate profile of the Group's financial liabilities and assets (after taking account of an interest rate swap operating at 31 March 2001 that converted £90 million of floating rate to fixed rate borrowings) was as follows:

	31 March 2002			31 March 2001		
	Fixed rate £'000	**Floating rate £'000**	**Total £'000**	Fixed rate £'000	Floating rate £'000	Total £'000
Financial assets	**–**	**9,418**	**9,418**	–	488	488
Financial liabilities	**(2,122)**	**(76,832)**	**(78,954)**	(232,986)	(56,588)	(289,574)
	(2,122)	**(67,414)**	**(69,536)**	(232,986)	(56,100)	(289,086)

Financial liabilities and assets are primarily denominated in sterling.

(b) Interest rate profile of borrowings and finance leases

The interest profile of the borrowings and finance leases is set out in note 17. The Group receives interest on its cash balances at floating rates of interest linked to money market rates.

The weighted average interest rate and weighted average period for which the rate is fixed, on the fixed rate financial liabilities is shown below:

	Fixed rate financial liabilities weighted average period for which rate is fixed 2002 Years	Fixed rate financial liabilities weighted average period for which rate is fixed 2001 Years	**Fixed rate financial liabilities weighted average interest rate 2002 %**	Fixed rate financial liabilities weighted average interest rate 2001 %
Sterling borrowings	**0.7**	9.3	**5.1**	8.7

The weighted average period is based on the maturity of the respective debt, but the fixed rate borrowings at 31 March 2001 were repaid on flotation. The calculations at 31 March 2001 also take account of the interest rate swap used at that time to manage the Group's interest rate risk.

(c) Borrowing facilities and liquidity risk

The Group had undrawn committed borrowing facilities at 31 March 2002, consisting of a £6,542,000 working capital facility (2001: £7,000,000), and an auxiliary facility of £17,547,000 (2001: acquisition facilities of £1,115,000).

These undrawn committed borrowing facilities expire on 7 June 2004.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18 Financial instruments continued

(d) Fair values of financial liabilities and financial assets

The following table provides a comparison by category of the carrying values and fair values of the Group's financial liabilities and financial assets at 31 March. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties (other than a forced or liquidated sale) and excludes accrued interest.

The fair values of short-term borrowings and cash approximates to the carrying value because of the short maturity of these investments. The fair value of long-term borrowings approximates to the carrying value after excluding the accrued interest and, in respect of fixed rate borrowings, discounting the expected cash flows at prevailing interest rates.

	31 March 2002		31 March 2001	
	Book value £'000	**Fair value £'000**	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations				
Short-term borrowings	**(10,991)**	**(10,991)**	(6,546)	(6,546)
Long-term borrowings	**(67,963)**	**(67,963)**	(257,339)	(251,592)
Cash at bank and in hand	**9,418**	**9,418**	488	488
	(69,536)	**(69,536)**	(263,397)	(257,650)
Derivative financial instruments held to manage the interest rate profile				
Interest rate swaps	–	–	–	(2,220)

A fee of £1,062,000 was paid during the year to cancel the interest rate swap.

(e) Maturity profile of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, excluding short-term trade creditors and accruals, at 31 March was as follows:

					31 March 2002
	Within 1 year or on demand £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	In 5 years or more £'000	**Total £'000**
Bank loans	–	–	67,931	–	**67,931**
Deferred consideration loan notes	10,883	–	–	–	**10,883**
Obligations under hire purchase agreements	108	32	–	–	**140**
	10,991	32	67,931	–	**78,954**

					31 March 2001
	Within 1 year or on demand £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	In 5 years or more £'000	Total £'000
Secured senior debt borrowings	5,938	11,597	56,967	71,521	146,023
Unsecured subordinated loan notes	–	–	–	142,902	142,902
Deferred consideration loan notes	565	–	–	–	565
Obligations under hire purchase agreements	43	41	–	–	84
	6,546	11,638	56,967	214,423	289,574

(f) Currency risks

All assets and liabilities of the Group at 31 March 2002 are denominated in sterling. At 31 March 2001, the Group had assets and liabilities denominated in US dollars and Belgian francs of £1,251,000 and £694,000 respectively.

19 Provisions for liabilities and charges

Provisions for liabilities and charges arising in the Company are wholly in respect of deferred taxation as explained in note 7.

20 Accruals and deferred income

Group	2002 £'000	2001 £'000
Accruals	**3,342**	5,019
Deferred income	**31,909**	26,885
	35,251	31,904

Deferred income represents the unearned proportion of rentals receivable from customers in advance and will normally be credited to turnover within one year.

21 Pensions

The Group operates a defined contribution scheme for eligible employees. Contributions by the Group are charged to the profit and loss account as incurred. The total pensions costs for the year are shown in note 5.

22 Called up share capital

	2002 £'000	2001 £'000
Authorised		
695,000,000 ordinary shares of 10p each (2001: 20,500,000 ordinary shares of 1p each)	**69,500**	205
Allotted, issued and fully paid		
517,045,452 ordinary shares of 10p each (2001: 20,202,020 ordinary shares of 1p each)	**51,705**	202

The following events occurred during the year that affected the share capital of the Company:

- Every ten of the 20,202,020 ordinary shares of 1p that were in issue were consolidated into one ordinary share of 10p;
- The authorised share capital was increased from £205,000 to £69,500,000 by the creation of an additional 692,950,000 ordinary shares of 10p;
- A bonus issue of 401 for 4 ordinary shares was made to the existing shareholders, funded by the capitalisation of £20,253,000 from the share premium account;
- 312,500,000 new ordinary shares were issued in accordance with a global offer to employees and institutional investors. The price of each ordinary share was fixed at 80p for this issue so no market price was available.

At 31 March 2002, the following options had been granted and remain outstanding in respect of the Company's 10p ordinary shares under the Company's share option schemes.

	Year granted	Exercise price	Date normally exercisable	Number of 10p ordinary shares
Savings related share option scheme	2001	71p	2004-2005	2,292,706
Discretionary share option scheme	2001	88p	2004-2011	1,136,581

23 Statement of movement on reserves

	Group		Company	
	Share premium account £'000	Profit and loss account £'000	Share premium account £'000	Profit and loss account £'000
At 1 April 2001	1,718	(11,781)	1,718	18
Premium on issue of shares	218,750	–	218,750	–
Write-off of expenses and commission on the public issue of shares	(12,491)	–	(12,491)	–
Bonus issue of shares	(20,253)	–	(20,253)	–
Retained profit for the financial year	–	16,271	–	9,163
At 31 March 2002	**187,724**	**4,490**	**187,724**	**9,181**

A profit of £11,335,000 on ordinary activities after taxation arose in the Company (2001: profit £23,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Reconciliation of movements in shareholders' funds

Group	2002 £'000	2001 £'000
Profit/(Loss) on ordinary activities after taxation	**18,443**	(3,342)
Dividends paid and proposed	**(2,172)**	–
Retained profit/(loss) for the financial year	**16,271**	(3,342)
New share capital subscribed	**250,000**	40
Write-off of expenses and commission on the public issue of shares	**(12,491)**	–
Other recognised gains and losses relating to the year	**–**	36
	253,780	(3,266)
Opening shareholders' funds	**(9,861)**	(6,595)
Closing shareholders' funds	**243,919**	(9,861)

25 Analysis of other headings in the cash flow statement

	Year ended 31 March 2002 £'000	Year ended 31 March 2001 £'000
Returns on investments and servicing of finance		
Interest received	**31**	–
Interest paid on secured senior debt	**(7,708)**	(12,508)
Interest paid on unsecured subordinated loan notes	**(25,254)**	–
Exceptional interest rate swap cancellation fee	**(1,062)**	–
Interest paid on bank loans and overdrafts	**(3,022)**	(17)
Issue costs incurred in respect of borrowings subsequently paid	**(416)**	–
Issue costs incurred in respect of outstanding bank loans	**(771)**	(16)
Interest paid on acquisition loan notes	**(251)**	(5)
Interest paid on finance and hire purchase agreements	**(4)**	(32)
	(38,457)	(12,578)
Capital expenditure		
Purchase of equipment installed at customers' premises	**(6,028)**	(5,147)
Purchase of other tangible fixed assets	**(2,865)**	(2,940)
Proceeds of sale of tangible fixed assets	**943**	446
	(7,950)	(7,641)
Acquisitions and disposals		
Acquisition of subsidiaries and other businesses	**(18,071)**	(14,919)
Acquisition expenses	**(720)**	(326)
Net cash/(overdraft) acquired	**684**	(25)
Disposal of subsidiaries	**577**	–
Disposal expenses	**(220)**	–
Net cash disposed	**(161)**	–
	(17,911)	(15,270)
Financing		
Receipt of bank loans	**68,589**	8,448
Receipt of secured senior debt	**2,700**	–
Repayment of secured senior debt	**(146,085)**	(4,500)
Repayment of unsecured subordinated loan notes	**(122,655)**	–
Proceeds from issue of ordinary shares	**250,000**	40
Expenses and commission paid in respect of the issue of ordinary shares	**(12,491)**	–
Repayment of capital element of finance and hire purchase agreements	**(89)**	(195)
	39,969	3,793

26 Movements in net debt

	At 1 April 2001 £'000	Cash flow £'000	Acquisitions and disposals £'000	Other non cash changes £'000	**At 31 March 2002 £'000**
Cash at bank and in hand	488	8,930	–	–	**9,418**
Debt due within one year					
Secured senior debt	(5,938)	6,000	–	(62)	–
Deferred consideration loan notes	(565)	283	–	(10,601)	**(10,883)**
Obligations under hire purchase leases	(43)	89	(145)	(9)	**(108)**
	(6,546)	6,372	(145)	(10,672)	**(10,991)**
Debts due after more than one year					
Bank loan	–	(67,818)	–	(113)	**(67,931)**
Secured senior debt	(140,085)	141,795	–	(1,710)	–
Unsecured subordinated loan notes	(142,902)	144,350	–	(1,448)	–
Obligations under hire purchase leases	(41)	–	–	9	**(32)**
	(283,028)	218,327	–	(3,262)	**(67,963)**
Net debt	(289,086)	233,629	(145)	(13,934)	**(69,536)**

27 Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
Increase/(Decrease) in cash during the year	8,930	(1,498)
Cash flow from decrease/(increase) in debt and lease financing	224,699	(3,778)
Change in net debt resulting from cash flows	233,629	(5,276)
Hire purchase leases acquired with subsidiaries	(145)	(46)
Changes in net debt resulting from non-cash changes	(13,934)	(18,356)
Movement in net debt in the year	219,550	(23,678)
Net debt at 1 April	(289,086)	(265,408)
Net debt at 31 March	**(69,536)**	**(289,086)**

The trade and assets of acquisitions made during the year are amalgamated into the existing trade of the Group and therefore their effects on the reported cash flows cannot be determined.

Non-cash changes comprise £3,333,000 of amortisation of debt issue costs and £10,601,000 of deferred consideration loan notes issued as partial consideration for acquired businesses.

28 Capital commitments

Neither the Group nor Company had capital commitments at 31 March 2002 (2001: £nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 Acquisitions

During the year, the Group has acquired the entire issued share capital of a number of companies as well as the trade and net assets of a number of unincorporated businesses. The acquisitions that the Directors believe to have been individually material to the Group are identified below:

Acquired entity	Nature	Acquisition date	Total Consideration £'000
Dee-esS Direct Supplies Limited	Company	6 April 2001	2,910
Personnel Hygiene Services (NI) Limited	Company	25 May 2001	2,012
Doop Services Limited	Company	29 June 2001	2,234
Elite Management Systems Limited	Company	5 October 2001	5,223
The UK Water Group Limited	Company	19 December 2001	6,256
Other companies and businesses			11,515
Total for all acquisitions			**30,150**

For each material acquisition, a table showing the book value, fair value adjustments and fair values of each class of asset and liability acquired is provided. The tables also analyse the fair value of the consideration paid and state the purchased goodwill arising.

Dee-esS Direct Supplies Limited	Book value £'000	*Alignment of* accounting policies £'000	Fair value £'000
Tangible fixed assets	504	(9)	495
Stocks	34	–	34
Debtors	413	(11)	402
Cash	394	–	394
Total assets	1,345	(20)	1,325
Bank overdraft	(350)	–	(350)
Other creditors	(558)	(21)	(579)
Net assets/(liabilities)	437	(41)	396
Purchased goodwill			2,514
Consideration			2,910
Satisfied by			
Cash			2,289
Loan notes			539
Acquisition expenses			82
			2,910

Dee-esS Direct Supplies Limited made a profit after tax of £281,000 from 1 April 2000 to the date of acquisition and a profit after tax of £225,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition, depreciation, provision against irrecoverable debtor balances and recognition of liabilities.

29 Acquisitions continued

Personnel Hygiene Services (NI) Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	357	(172)	185
Stocks	57	(51)	6
Debtors	230	(10)	220
Cash	278	–	278
Total assets	922	(233)	689
Creditors	(423)	2	(421)
Net assets/(liabilities)	499	(231)	268
Purchased goodwill			1,744
Consideration			2,012
Satisfied by			
Loan notes			1,982
Acquisition expenses			30
			2,012

Personnel Hygiene Services (NI) Limited made a profit after tax of £150,000 from 1 July 2000 to the date of acquisition and a profit after tax of £10,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset and stock recognition, depreciation, lessor accounting on operating leases and provision against irrecoverable debtor balances.

Doop Services Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	170	(89)	81
Stocks	19	–	19
Debtors	254	(3)	251
Cash	96	–	96
Total assets	539	(92)	447
Bank overdraft	(35)	–	(35)
Creditors	(362)	(31)	(393)
Net assets/(liabilities)	142	(123)	19
Purchased goodwill			2,215
Consideration			2,234
Satisfied by			
Cash			130
Loan notes			2,047
Acquisition expenses			57
			2,234

Doop Services Limited made a loss after tax of £27,000 from 1 January 2001 to the date of acquisition and a profit after tax of £160,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition, depreciation, provision against irrecoverable debtor balances and recognition of liabilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29 Acquisitions continued

Elite Management Systems Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	69	(31)	38
Stocks	69	(56)	13
Debtors	300	(66)	234
Total assets	438	(153)	285
Bank overdraft	(2)	–	(2)
Creditors	(391)	(768)	(1,159)
Net assets/(liabilities)	45	(921)	(876)
Purchased goodwill			6,099
Consideration			5,223
Satisfied by			
Cash			44
Loan notes			4,268
Deferred consideration			835
Acquisition expenses			76
			5,223

Elite Management Systems Limited made a profit after tax of £134,000 from 1 April 2001 to the date of acquisition and a profit after tax of £128,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition, depreciation, lessor accounting on operating leases, accounting for deferred income, provision against irrecoverable debtor balances and recognition of liabilities.

The deferred consideration is to be satisfied by the issue of further loan notes.

The UK Water Group Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	636	(272)	364
Stocks	415	–	415
Debtors	782	(8)	774
Cash	81	–	81
Total assets	1,914	(280)	1,634
Creditors	(1,448)	(474)	(1,922)
Net assets/(liabilities)	466	(754)	(288)
Purchased goodwill			6,544
Consideration			6,256
Satisfied by			
Cash			6,150
Acquisition expenses			106
			6,256

The UK Water Group Limited made a profit after tax of £23,000 from 1 February 2001 to the date of acquisition and a profit after tax of £241,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition, depreciation, lessor accounting on operating leases, accounting for deferred income, provision against irrecoverable debtor balances and recognition of liabilities.

29 Acquisitions continued

Other acquisitions	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	178	(69)	109
Stocks	181	(77)	104
Debtors	943	(170)	773
Cash	260	–	260
Total assets	1,562	(316)	1,246
Bank overdraft	(38)	–	(38)
Creditors	(1,288)	(43)	(1,331)
Net assets/(liabilities)	236	(359)	(123)
Purchased goodwill			11,638
Consideration			11,515
Satisfied by			
Cash			8,879
Loan notes			1,501
Deferred consideration			808
Acquisition expenses			327
			11,515

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition, depreciation, lessor accounting on operating leases, accounting for deferred income, provision against irrecoverable debtor balances and recognition of liabilities.

The deferred consideration is all to be satisfied by the payment of cash.

An analysis of cash and cash equivalents in respect of each acquisition is provided below:

	Dee-esS Direct Supplies Ltd £'000	Personnel Hygiene Services (NI) Ltd £'000	Doop Services Limited £'000	Elite Management Systems Limited £'000	The UK Water Group Limited £'000	Others £'000	Total £'000
Cash consideration (including acquisition expenses)	2,371	30	187	120	6,256	9,206	18,170
Cash at bank and in hand acquired	394	278	96	–	81	260	1,109
Bank overdraft acquired	(350)	–	(35)	(2)	–	(38)	(425)
Net outflow of cash and cash equivalents	**2,415**	**308**	**248**	**118**	**6,337**	**9,428**	**18,854**

In addition to the above, £621,000 was paid in respect of acquisitions made in prior years. This was mainly as a result of the conversion of loan notes or the realisation of deferred consideration.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30 Operating lease commitments
At 31 March the Group was committed to making the following annual payments during the next year in respect of non-cancellable operating leases:

	2002 £'000	2001 £'000
Land and buildings		
Operating leases which expire:		
Within one year	**14**	18
Within two to five years	**289**	121
After five years	**491**	637
	794	776
Other		
Operating leases which expire:		
Within one year	**296**	439
Within two to five years	**3,751**	2,855
After five years	**113**	–
	4,160	3,294

31 Ultimate controlling party
From the start of the year until the flotation on 29 June 2001, the ultimate controlling party of both the Company and Group was a series of Funds managed by Charterhouse General Partners (VI) Limited.

32 Related party transactions
Where appropriate the Company and Group have taken advantage of the exemption available not to disclose any related party transactions and balances with other 90% owned, or greater, Group companies for the financial period.

Of the subordinated unsecured loan notes that were in issue until their redemption at the time of the flotation, £117,583,000 were in the favour of Charterhouse General Partners (VI) Limited, £299,000 in the favour of Fund Nominees Limited, £3,023,000 in the favour of Charterhouse Development Limited, £1,250,000 in favour of the executive directors and £500,000 in favour of other senior management. During the year, interest of £3,559,000 has accrued and been paid in respect of these loan notes. These loan notes were redeemed at par along with interest accrued at the time of the flotation in June 2001.

33 Post balance sheet events
The Group has made four acquisitions since the year-end, purchasing the entire issued share capital of Teacrate plc for cash consideration of £13.7m (with additional consideration of approximately £5m to be paid in the future based on an earn-out arrangement), the entire issued share capital of The Well Corporation Limited for cash consideration of £4.4m and two smaller acquisitions for a consideration of £2m. These acquisitions were partly funded by borrowing an additional £18m through our existing facilities (as described in note 18).

Teacrate plc takes the Group into a fifth class of operations, being crate rental. The Well Corporation operated in the collection and disposal of bulk clinical waste and is being integrated into the existing operations in this area within the washroom services division.

The Group has also negotiated an increase of £33m in the available borrowing facilities on the same interest terms as the original facilities and secured on the same basis.

FIVE-YEAR SUMMARY

	Year ended 31 March 1998 £'000	Year ended 31 March 1999 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 2001 £'000	**Year ended 31 March 2002 £'000**
Turnover	44,587	56,779	77,874	97,068	**115,067**
Operating profit	8,020	11,780	15,397	26,744	**33,567**
Net interest payable	(2,271)	(1,979)	(20,510)	(30,386)	**(14,942)**
Loss on disposal of subsidiary undertakings	–	–	–	–	**(969)**
Profit/(Loss) on ordinary activities before taxation	5,749	9,801	(5,113)	(3,642)	**17,656**
Taxation on profit/(loss) on ordinary activities	(2,012)	(2,644)	(45)	300	**787**
Profit/(Loss) on ordinary activities after taxation	3,737	7,157	(5,158)	(3,342)	**18,443**
Equity minority interests	60	43	(1)	–	**–**
Profit/(Loss) for the year	3,797	7,200	(5,159)	(3,342)	**18,443**
Dividends	–	–	–	–	**(2,172)**
Retained profit/(loss) for the year	3,797	7,200	(5,159)	(3,342)	**16,271**
Basic earnings/(loss) per share	0.84p	1.63p	(1.18p)	(0.75p)	**4.18p**

Basic earnings/(loss) per share has been calculated as if the weighted average number of shares in issue at 31 March 2002 had been effective in each of the four years ended 31 March 2001.

The results for the year ended 31 March 2000 are derived by combining the audited financial statements of PHS Group plc for the period from incorporation on 7 July 1999 to 31 March 2000, with the results prior to 7 July 1999 of the holding company acquired by PHS Group plc on 7 July 1999.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at The Celtic Manor Hotel and Country Club, Coldra Woods, Newport, Gwent, NP6 2YA on Friday 12 July 2002 at 4.00 pm, for the following purposes:

Ordinary business

Resolution Number 1
To receive and adopt the financial statements of the Company for the year ended 31 March 2002 together with the reports of the Directors and auditors thereon.

Resolution Number 2
To approve the declaration of a final dividend for the year ended 31 March 2002 of 0.29p per ordinary share, to be paid on 21 August 2002 to all shareholders registered at the close of business on 26 July 2002.

To re-elect the following Directors who are retiring from the Board at the first Annual General Meeting of the Company since listing on the London Stock Exchange.

Resolution Number 3
Mr R D Mackenzie

Resolution Number 4
Mr P J Cohen

Resolution Number 5
Mr K Bland

Resolution Number 6
Mr J M Allan

Resolution Number 7
Mr J G Astrand

Resolution Number 8
To reappoint PricewaterhouseCoopers as auditors of the Company until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.

Special business

Resolution Number 9
Ordinary resolution
In accordance with Article 6 of the Company's Articles of Association, the Directors be generally and unconditionally authorised to allot relevant securities within the meaning of Section 80 of the Companies Act 1985 up to a maximum aggregate nominal amount of £17,062,500 (being 33% of the Company's issued ordinary share capital at 31 March 2002). Such authority (unless previously revoked or varied) to expire at the conclusion of the next Annual General Meeting of the Company, but before such expiry, the authority shall allow the Company to make an offer or agreement that would or might require relevant securities to be allotted after it expires.

Resolution Number 10
Special resolution
Subject to the passing of the previous resolution 9 and in accordance with Article 7 of the Company's Articles of Association, the Directors be empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") and the authority conferred by said resolution 9, to allot equity securities for cash as if Section 89(1) of the Act did not apply to the allotment, provided that such power is limited to:

(i) the allotment of equity securities in connection with a rights issue;
(ii) the allotment of equity securities in satisfaction of the valid exercise of options pursuant to the Company's executive and savings related share option schemes; and
(iii) the allotment (other than in connection with a rights issue) of equity securities having a nominal amount not exceeding £2,585,227 (being 5% of the Company's issued ordinary share capital at 31 March 2002).

Such authority (unless previously revoked or varied) to expire at the conclusion of the next Annual General Meeting of the Company, but before such expiry, the authority shall allow the Company to make an offer or agreement that would or might require equity securities to be allotted after it expires.

Resolution Number 11
Special resolution
The Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of, and to cancel, ordinary shares of 10p each in the ordinary share capital of the Company provided that:

(i) the maximum number of ordinary shares hereby authorised to be purchased is 51,704,545 (being 10% of the Company's ordinary shares in issue at 31 March 2002);
(ii) the minimum price that the Company may pay is 10p per share and the maximum price that the Company may pay is 105% of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the UK Listing Authority for the five business days immediately preceding the day on which the ordinary share is purchased, in both cases exclusive of expenses;
(iii) the authority hereby conferred (unless previously revoked or varied) shall expire at the conclusion of the next Annual General Meeting of the Company, but before such expiry, the authority shall allow the Company to enter into a contract to purchase ordinary shares which may be executed wholly or partly after the expiry of such authority.

By order of the Board

Keith Bland
Company Secretary
19 June 2002

Notes:
1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and on a poll, vote instead of him or her. A proxy need not be a member of the Company.
2. A form of proxy is enclosed which holders of ordinary shares in the Company are invited to complete and return in the envelope provided to be received at the Company's registered office not less than 48 hours before the time appointed for opening the meeting. Completion and return of the proxy form in accordance with the instructions thereon does not prevent such shareholders from attending and voting at the Annual General Meeting in person.
3. The register of interests of Directors and their families together with copies of the Directors' service contracts will be available at the Company's registered office on weekdays (Saturdays and public holidays excepted) during usual business hours from the date of this notice until the date of the Annual General Meeting and will, on the date of the Annual General Meeting, be available for inspection at the venue of the meeting from 15 minutes prior to and until the conclusion of the meeting.
4. In accordance with Regulation 34 of the Uncertified Securities Regulations 1995, only those members registered in the register of members at close of business on 10 July 2002 will be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

SHAREHOLDER INFORMATION

Directors, secretary, registered office and advisers

Directors
Robert David Mackenzie *Non-executive Chairman*
Peter James Cohen *Chief Executive*
Keith Bland *Group Finance Director*
John Murray Allan *Non-executive director*
Jan Gunnar Astrand *Non-executive director*

Company secretary
Keith Bland

Registered and head office
Western Industrial Estate
Caerphilly
South Wales, CF83 1XH

Stockbroker
Merrill Lynch International
20 Farringdon Road
London, EC1M 3NH

Solicitors
Morgan Cole
Bradley Court
Park Place
Cardiff, CE10 3DP

Registered Auditors
PricewaterhouseCoopers
One Kingsway
Cardiff, CF10 3PW

Principal Bankers
Bank of Scotland plc
Broad Street House
55 Old Broad Street
London, EC2P 2HL

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol, BS99 7NH

FINANCIAL CALENDAR

Interim results published	December 2002
Dividend payment dates:	
Final	21 August 2002
Interim	January 2003 (provisional)

Designed and produced by Radley Yeldar