PHS Group plc

Annual Report 2003

picture

servicing

Contents

Financial highlights

£139.9m +22.0%
Turnover*

£41.2m +22.6%
Operating profit*

29.3% to 29.5%
Improvement in operating profit margins*

£36.0m +24.1%**
Profit before tax

4.91p +24.3%**
Basic earnings per share

£46.8m +30.4%
Net cash inflow from operating activities

* From continuing operations.

** See Financial review for an explanation of the adjustments made to profit before tax and earnings per share in 2002. The actual profit before tax has increased by 104.1% from £17.7m in 2002 and the actual earnings per share has increased by 17.5% from 4.18p in 2002.

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 and crate rental.

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;
>Enhancing customer service;
>Reducing customer churn.

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.

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Chairman's statement
Bob Mackenzie

Significant progress has been made with all divisions delivering improved performance largely through a combination of organic and acquisition growth. Our acquisition strategy continues to progress in line with the plan set out at flotation in June 2001 to invest £100m in earnings enhancing acquisitions over three years. Financial highlights of the last year included the following:

- Turnover from continuing operations for the year ended 31 March 2003 increased by 22.0% to £139.9m (2002: £114.7m).
- Operating profit from continuing operations increased by 22.6% to £41.2m (2002: £33.6m).
- Operating profit margins from continuing operations improved from 29.3% to 29.5%.
- Profit before tax increased by 24.1% to £36.0m (2002 adjusted*: £29.0m).
- Basic earnings per share increased by 24.3% to 4.91p (2002 adjusted*: £3.95p).
- Net cash inflow from operating activities increased by 30.4% to £46.8m (2002: £35.9m) reflecting an operating profit to cash conversion of 113.6% (2002: 106.8%).
- Investment of £37.5m in 16 acquisitions over the year, including the £14.6m acquisition of Teacrate.
- Interest cover remains strong, being covered eight times by operating profit.
- Total dividend for the year of 0.55p per share (2002: 0.42p).

In our first full financial year since listing on the London Stock Exchange, PHS has continued to deliver strong results.

Organic growth in the contract pool** of 5.0% was achieved year on year, largely driven by our highly motivated sales force and supported by a number of new marketing initiatives aimed at using our existing customer database more effectively. We also launched a number of new products and services in the year to reinforce our position as an extremely innovative and creative supplier of services within our sector.

Supplementing organic growth, the Group invested £37.5m in 16 acquisitions. These comprised 15 acquisitions bolted-on to our existing business and one larger acquisition, Teacrate, which took us into the crate rental market and created a fifth operating division for the Group.

Service productivity and customer service measured by the percentage of contracted services completed on time continued to improve. These key performance indicators are closely monitored as part of our commitment to customer satisfaction. Further benefits in these areas are expected from our continued investment in the development of our new IT systems. A number of new supplier contracts were negotiated in the year, which are expected to result in ongoing savings of £1.2m per annum.

Board changes In October 2002, Keith Bland retired as Finance Director. Keith had given 18 years of service to PHS and we wish him every success for the future. He was replaced as Finance Director by John Skidmore, who was promoted to the Board from his post as Group Financial Controller, which he held for six years.

People We continue to deliver strong results largely because of the dedication of our most important asset, our people. Significant investment in training and development at all levels along with a policy of making internal promotions wherever possible help to keep our workforce highly motivated, although we recognise the importance of external recruitment to bring new ideas and experiences to our business. I would like to take this opportunity to thank the entire workforce for their skill, hard work and commitment without which the Group could not continue its successful development to date.

Outlook We have set ourselves robust, challenging, but realistic targets for the new financial year and beyond. I am confident that we will succeed and deliver another progressive performance through a combination of organic growth and our continuing selective acquisition strategy. We anticipate that our organic growth will continue to be driven by a combination of innovative new products and services.

Bob Mackenzie Chairman

* See Financial review for an explanation of the adjustments made to profit before tax and earnings per share in 2002. The actual profit before tax has increased by 104.1% from £17.7m in 2002 and the actual earnings per share has increased by 17.5% from 4.18p in 2002.

** Organic growth in the contract pool is a measure of the increase in the annualised value of active contracts at 31 March 2003 compared to the annualised value of active contracts at 31 March 2002, less the annualised value of contracts acquired in the year.

In our first full year since listing on the London Stock Exchange, the Group demonstrated its resilience, delivering a strong set of results. PHS Washrooms, PHS Treadsmart, PHS Greenleaf and PHS Waterlogic all delivered improved profitability and our new division, Teacrate, produced a healthy contribution to our results.

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 rental. The Group expanded its operations into the crate rental market with the acquisition of Teacrate in April 2002. We continue to be a customer-focused, sales-driven organisation with separate sales and service operations for each area of the business, supported by central marketing, IT, finance, training and administration functions.

Focus Our aim is to be the first to identify the needs of our customers and produce innovative ways of meeting those needs ahead of our competitors. We believe that our strong focus on putting customers first and driving improvements to the services we provide gives us a significant competitive advantage in our markets.

Business development To support our healthy organic growth, business development has been driven by increased investment in marketing, extra sales resource and the provision of new products and services. Our operational initiatives aimed at improving customer retention and increasing the quantity of services and products available to customers have proved highly successful. "Leads United", our ongoing initiative to encourage our employees to generate sales leads, provided an impressive 43,000 leads this year.

"Project Matrix" is a new marketing initiative, aimed at leveraging our existing customer database to target those customers where we believe we can cross-sell additional products and services. We have also continued our "Project Fast Response" initiative, which implements ideas from our own employees on customer retention through delivering better service and taking ownership of customer needs. This initiative has played a significant role in the improvement of customer retention rates across the Group.

A fourth initiative, "Project Q Call", was launched recently to improve customer care. It is aimed at further improving customer retention by providing service staff with a hot line number they can call to get immediate action to deal with any problems that they identify on customers' sites before they become an issue for the customers themselves. This initiative complements "Project 24/24", which allows our washroom customers to have their call answered by a PHS employee 24 hours a day, seven days per week and have any issue dealt with within 24 real-time hours.

We continue to invest in our IT systems and are on target to fully implement the upgrade to our software, supported by a modern infrastructure, by April 2004. The total investment in this project is expected to be £2.0m. The re-engineered software will improve customer service, increase the efficiency of administrative processes and provide improved management information.

Acquisitions At the time of our flotation in June 2001, we set out our plan to continue to develop our workplace services businesses by investing £100m in acquisitions over the following three years. The amount invested in the two years ended 31 March 2003 totals £67.7m. Activity is focused on opportunities that can be bolted-on to our existing business, complemented by new businesses in low technology, high margin, growing markets where there is fragmented competition and a large volume of customers requiring rental, service and maintenance on long-term contracts, spending relatively low sums of money. The areas in which we operate will also typically require low capital investment and be strongly cash generative.

The Group made 16 acquisitions in the year at a total cost of £37.5m. The majority of these acquisitions were bolted-on to our existing washroom services business, although the largest individual acquisition at a cost of £14.6m, was the crate rental business, Teacrate. This acquisition took us into a new market that complements the rest of the Group and fits with our established acquisition criteria, being a low technology rental business requiring low capital investment while generating high margins.

Costs and margins We continue to invest in the improvement of route planning and service performance in order to achieve continuous cost reductions and productivity improvements. Our procurement initiatives to deliver real cost reductions through agreeing long-term partnership deals with our suppliers have continued with a number of new contracts negotiated in the year. These are expected to deliver annual savings of £1.2m in areas such as vehicle leasing, plastic components and consumables.

In addition, "Project Atlas" is a new initiative led by PHS Treadsmart management aimed at increasing service staff productivity by introducing a new software package to improve route planning. Once fully implemented in the Treadsmart division, consideration will be given to rolling it out across the Group as best practice.

People The ability of our people, their motivation, commitment and skill is vital to our success and I would like to thank them for their outstanding contribution. By providing a creative environment that gives people an opportunity to contribute their ideas for improving our business, PHS strives to encourage the fullest contribution from its employees while at the same time encouraging their personal development.

Our policy is to promote from within wherever possible whilst recognising that bringing in new talent from the outside will encourage the creativity and innovation for which we strive. Our Group training systems are accredited to the Investors in People (IIP) standard and our continued investment in these systems for the development of our staff saw over 4,600 training days delivered in the year.

Outlook Our aim is 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.

Our strong financial position combined with high profit and cash generation and complemented by our many new initiatives and ideas, puts us in an enviable position to continue our profitable growth in the year ahead. We are confident of a successful 40th year of trading.

Peter Cohen Chief Executive

The most significant of the 16 acquisitions during the year are set out below:

Business name	Business activity	Consideration (£m)
Teacrate Rentals Limited (April 2002)	Rental of specialist crates to the UK office and commercial moving market. This acquisition took the Group into this market for the first time.	14.6
The Well Corporation Limited (May 2002)	Clinical waste collection and disposal. This acquisition was a bolt-on to our existing clinical waste business.	5.7
Hygeni-Care Limited (September 2002)	Provision of washroom services. This acquisition was a bolt-on to our existing washroom services business.	3.2
Redland Hygiene Limited (October 2002)	Tele-sales of washroom and workplace consumables. This acquisition was a bolt-on to our existing washroom tele-selling business.	2.3
Britannia Hygiene plc (December 2002)	Provision of washroom services. This acquisition was a bolt-on to our existing washroom services business.	3.8
Other		7.9
		37.5

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Chief Executive's review
Peter Cohen

clean

picture

PHS Washrooms PHS Washrooms, the number two provider of washroom equipment and servicing in the UK, grew turnover from £83.8m to £99.5m, an increase of 18.7% in the year.

Divisional operating profit before central costs grew from £40.0m to £46.0m, an increase of 15.0%. The margin moved from 47.7% to 46.3% as a result of variations in the mix of products and services sold.

PHS Washrooms contributed 71.1% of Group turnover and 81.7% of Group operating profit before central costs.

The development of the business was driven by an increase in sales resource and additional investment in marketing to help enhance the productivity of our sales force. New products launched included the new Ultra Aire air filtration unit and a new water management system which regulates water flow. Both products were developed in-house at our Tamworth design and assembly facility. These and other new products have additional features and benefits, which enable PHS to achieve higher average rental prices.

The collection and disposal of pharmaceutical and dental waste businesses have been grown both organically and by acquisition. PHS is UK market leader in both of these niche markets where management see opportunities to expand further and achieve profitable growth.

Both PHS Direct, which tele-sells washroom consumables, and PHS All Clear, our clinical waste business, contributed to the overall improved performance of the division. Both were grown through a combination of organic and acquisition growth.

Significant contract wins included the UK contract for the supermarket chain Asda and three-year contracts to supply Greene King and The Laurel Pub Group. The fastest growing product group continues to be air fresheners, where double-digit organic growth in the contract pool has been achieved.

Previous investment in customer retention along with our newer initiatives such as "Project Q Call" has helped improve contractual customer retention to 87% for the year (2002: 85%). In particular, we are continuing to implement the best of the ideas contributed by our people and selected by the "Project Fast Response" team.

During the year, £20.6m was invested in 11 acquisitions, including The Well Corporation Limited which was bolted-on to our existing clinical waste business. The acquisitions of Hygeni-Care Limited and Britannia Hygiene plc amongst others provided significant levels of business to be bolted-on to the existing core business. Management continues to see a large number of potential acquisition targets in the UK washrooms services' market.

Operating review PHS Washrooms

Intelligently Clean PHS Washrooms' intelligent water management system helps create the perfect balance between hygiene and economy. Using innovative technology, the system automatically adjusts the flushing of the urinal to match actual usage. This innovative product is part of our extensive range supplied to keep washrooms clean and hygienic.

picture

picture

Operating review PHS Treadsmart

PHS Treadsmart PHS Treadsmart, the number one provider and maintainer of standard and speciality mats in the UK, grew turnover from £13.5m to £14.4m, an increase of 6.7% in the year.

Divisional operating profit before central costs grew from £3.4m to £3.9m, an increase of 14.7%. The margin improved from 24.9% to 27.3%.

PHS Treadsmart contributed 10.3% of Group turnover and 7.0% of Group operating profits before central costs.

The growth in both turnover and operating profit was driven by the increased demand for speciality mats, which now makes up over half of the division's contractual business. These mats are custom-made with the customer choosing the size and design and then manufactured to a high standard by carefully selected third parties.

The improvement in the margin was the result of three main factors: an improvement in the rental pool mix away from standard and into speciality mats; improvements in service productivity from the Group's initiatives in this area; and the positive impact of price changes across all product groups.

In October 2002, PHS Treadsmart introduced a new range of speciality mats, including leisure and sports mats for swimming pools and sports centres, aqua mats for kitchens and food preparation areas and magna mats for clean room environments such as laboratories, electronic manufacturing and research establishments. As one of the largest mat purchasers in Europe, our work with mat technologists around the world allows us to develop our product range to offer creative solutions to meet the needs of our customers, frequently introducing new mat technologies to the UK market for the first time.

A new service centre was opened in Andover in the first half to improve the customer service in that region and a number of initiatives, including a "Good to Come Back to PHS" campaign, were launched in the year. This contributed to PHS Treadsmart improving contractual customer retention to 86% for the year (2002: 85%).

picture

Safe and Hygienic PHS Treadsmart's leisure mat provides an attractive, anti-slip and hygienic solution for leisure industry wet areas such as swimming pools and shower rooms. Manufactured from 97% recycled materials with integral anti-microbial properties, the mat provides a safe and durable floor covering. This mat forms part of our extensive range of speciality mats suitable for all environments.

picture

safe

picture

natural

PHS Greenleaf At PHS Greenleaf, the number one provider and maintainer of live and replica plants to commercial premises in the UK, turnover fell from £14.1m to £13.2m as the result of a cyclical downturn in the market, a reduction of 6.4% in the year.

Despite this, divisional operating profit before central costs remained at £2.0m with the margin improving from 14.1% to 15.2%.

PHS Greenleaf contributed 9.4% of Group turnover and 3.6% of Group operating profit before central costs.

Management attention was focused on achieving cost reductions to produce enhanced margins despite the temporary fall in demand. This fall is being addressed by a recent reorganisation of the sales management structure and investment in additional resource in the sales area to ensure PHS Greenleaf is better equipped to maintain and grow the levels of business in the medium term. Customer retention was 74% (2002: 71%).

Throughout the year, PHS Greenleaf continued to win major competitive contracts including the UK contract for Lloyds TSB and a substantial new contract for Alton Towers, which commenced installation in May 2003.

New container designs and creative offerings were launched in the year to improve the range of products available to our customers. Our continuing commitment to improving the range of products on offer is particularly important when bidding for large projects. PHS Greenleaf won awards from the City of London for creative planting in the year of the Queen's Jubilee.

The appointment of a new divisional Managing Director in December 2002 has led to the introduction of a number of initiatives which have begun to deliver benefits that are expected to continue into the new financial year and beyond. These initiatives have helped to control subcontractor costs, improve stock control and raised the quality and timeliness of management information.

Operating review PHS Greenleaf

Positively Natural PHS Greenleaf's extensive range of live plants will enhance any working environment. Studies have shown that introducing live plants to the workplace can have a positive effect on employees, leading to increased productivity, reduced stress and lower noise levels. The natural foliage acts as a filter, helping to remove pollution and bacteria from the air.

picture

picture

Operating review PHS Waterlogic

PHS Waterlogic PHS Waterlogic, *which provides and maintains plumbed-in,* point of use, purified water dispensers, grew turnover from £3.3m to £7.1m, an increase of 115.2%.

Divisional operating profit before central costs improved from £0.9m to £2.6m, an increase of 188.9%. The margin improved from 26.2% to 36.5%.

PHS Waterlogic contributed 5.1% of Group turnover and 4.6% of Group operating profit before central costs.

Our investment in sales and marketing to rapidly grow this business focused on *winning new customers and converting* existing bottled water users to the point of use dispensers supplied by PHS Waterlogic. This was achieved by promoting the simple message about the higher quality, lower cost and greater convenience offered by these point of use dispensers.

The launch of the WL3000 dispensers, *which offer additional features and benefits* over the previous WL950 dispensers, played a key role in the substantial growth of the division. The WL3000 is available in hot, chilled, still and sparkling variants and features improved filtration systems with an ultra-modern look.

On the operational side, two warehousing and distribution centres were consolidated into one modern facility near Peterborough, resulting in cost reductions and improved customer service. Relationships with key suppliers have been developed, allowing *us to work together on value engineering* projects to improve quality and reduce costs.

Focus has also been directed at retaining the existing business, which achieved contractual customer retention of 87% for the year (2002: 94%). The customer care team has been strengthened and service resource for installs, repair and maintenance increased to manage the growth achieved.

picture

Refined for Purity PHS Waterlogic's point of use WL3000 dispenser offers a three-stage purification process to ensure the water dispensed is pure and free from *harmful bacteria. The water is passed* through two advanced filtration chambers and an ultraviolet sterilisation unit before being dispensed in a combination of hot, chilled, still or sparkling variants.

refined

picture

picture

integrated

Teacrate Teacrate, the number two operator in the UK office and commercial moving market, contributed turnover of £5.8m and operating profit of £1.8m in its first year. The margin achieved was 30.9%.

Teacrate contributed 4.1% of Group turnover and 3.1% of Group operating profit before central costs.

These results were achieved despite demand for crates in the office and commercial moving market being depressed by a fall in demand from financial services customers in London and the South East. Attention to improving service productivity and developing relationships with suppliers has helped sustain the margin. The strategy to maintain and grow profitability and margins has followed two main routes.

Firstly, Teacrate has focused on improving its share of the office and commercial moving market by demonstrating the added value to the customer from using Teacrate's advanced computer software, including customer-facing internet based services. This differentiates Teacrate from its competitors by enabling customers to view the status of their accounts online and allowing intermediate customers to invoice end-use customers through Teacrate's system. Significant business won from a competitor includes the national accounts for Axa and Commercial Move Management.

Secondly, Teacrate has moved into the market providing crates for food distribution. A new range of products and services has been launched aimed at customers involved in the production and processing of food. Customers driven by health and safety, environmental and cost considerations are being persuaded to move into plastic crate rental. We anticipate that this market will grow rapidly to account for a significant proportion of divisional turnover.

In addition to these two main routes, Teacrate has expanded its offering in the retail market, where packaging demands driven by seasonal increases in stock have provided valuable opportunities for its services. Business with Boots, and more recently with Focus DIY, has been won at the expense of competitors.

During April 2002, Teacrate opened a new distribution and customer service centre in Glasgow and another new centre was opened in Sunderland later in the year. Both investments were made to expand the division's geographical coverage of the core office and commercial moving markets outside the South East to deliver an improved service to both new and existing customers.

Operating review
Teacrate

Perfectly Integrated From crates designed to hold a complete computer system to those for holding organically grown produce, Teacrate provide strong, clean and durable products. With advanced computer software including customer-facing internet based services and an integrated order, delivery and invoice process, Teacrate offers the complete crate solution.

picture

picture

The year to 31 March 2003 was PHS's first full year as a listed company following its flotation in June 2001. The Group's strategy of growing the business through a mix of organic and acquisition growth resulted in another year of improved profitability and strong cash generation.

Results for the year The Group achieved a 22.0% increase in turnover and a 22.6% increase in operating profit from continuing operations. These improvements were largely the result of strong growth in both the PHS Washrooms and PHS Waterlogic divisions, as well as the impact of the acquisition of Teacrate in April 2002.

Operating profit from continuing operations of £41.2m was achieved at a margin of 29.5%. This compares favourably with the operating profit from continuing operations of £33.6m earned in the previous year at a margin of 29.3%.

The full year benefit from refinancing at flotation resulted in a net interest charge of £5.2m, a saving of £9.7m on the £14.9m charge in the previous year. This saving contributed towards an increase of over 100% in pre-tax profit, which grew from £17.7m in the previous year to £36.0m in the current year.

A more comparable profit before tax for 2002 is £29.0m as illustrated in the table on page 18. This profit is based on the assumption that the capital and debt structure immediately following the flotation in June 2001was in place for the whole of that financial year and discounts the £969,000 loss on disposal of subsidiaries. On this basis, profit before tax has increased by 24.1% in the current year.

Taxation The tax charge for the year was £10.6m, compared with the credit of £0.8m that arose in the previous year as the result of the introduction of the refinancing on flotation and requirement to account for deferred tax on a full provision basis. The effective rate of tax for the year is 29.5% and differs from the 30% standard rate of corporation tax in the UK largely because of the credit of £0.1m arising where actual tax due in respect of previous years differs from the charge recognised in the financial statements for those years.

Dividend The Board is recommending a final dividend of 0.38p per share, giving a total dividend for the year of 0.55p per share. The total dividend is covered 8.9 times by earnings.

If approved, the Group will pay the final dividend on 20 August 2003 to all shareholders registered on 25 July 2003.

Acquisitions The acquisition of bolt-on businesses and other businesses that the Directors believe will complement the existing business continues to form a core part of our strategy to achieve further growth. During the year, £37.5m has been invested in 16 acquisitions, resulting in £37.3m of goodwill being capitalised on the balance sheet as an intangible asset.

The largest individual acquisition was that of Teacrate for £14.6m, which created a fifth operating division. This acquisition generated a £1.8m contribution to operating profit in the year. Other acquisitions were bolted-on to the Group's existing operations and all were successfully integrated according to schedule.

The Board have reviewed the acquisitions and underlying business and concluded that as in the previous year, the associated goodwill has an indefinite life and consequently, no amortisation has been charged. More detailed commentary on our policy regarding the amortisation of goodwill is provided in note 1 to the financial statements.

Capital expenditure The Group spent £10.3m gross on capital expenditure, which represented 129% of its £8.0m depreciation charge. Sales of fixed assets raised £0.2m.

As our businesses are predominantly of a service or rental nature, the majority of the capital spend relates to equipment installed at customers' premises that requires periodic replacement in addition to expansion and enhancement. This expenditure is necessary to provide the equipment at the core of our business and the increase on the previous year reflects the growth in the business and increased demand for our services.

picture

Financial review
John Skidmore

Financial review continued

Earnings per share Basic and diluted earnings per share have increased from 4.18p to 4.91p, an increase of 17.5%. The movement is influenced by a number of transactions in the year ended 31 March 2002, caused by the Company's flotation in June 2001. After adjusting for these transactions, basic earnings per share would have been 3.95p. These adjustments lead to a more comparable basic earnings per share for the previous year as a consistent capital and debt structure is assumed for the whole of that year and the effect of the exceptional loss on disposal of subsidiaries of £969,000 is discounted.

Had the increase in issued share capital that took place on flotation been in place for the whole of the previous year, the weighted average number of shares used in the calculation of basic earnings per share for that year would have been 517,045,000 shares.

The adjusted net profit for the previous year would have been £20,437,000 instead of the £17,656,000 presented in the financial statements. A reconciliation between these two amounts is presented below.

The adjustments relating to interest payable and other charges assume that the bank borrowings of £67,818,000 net of the issue costs incurred on raising this debt of £771,000 were in place at the start of the financial year. The interest rate and non-utilisation fees that would have been applied to these borrowings under the loan agreement in place has been used to calculate the interest that would have been charged for the period to flotation.

Tax on adjusted profit has been calculated at an effective rate of 29.5%. This is the effective rate of tax charge for the year ended 31 March 2003, which should not be significantly different to that charged in the previous year had the one-off deferred tax credit of £4.8m from the recognition of a previously unrecognised deferred tax asset not arisen.

Financing The Group has generated cash of £46.8m from its operating activities, representing a 113.6% conversion of its £41.2m operating profit. This conversion rate is an improvement on the 106.8% achieved in the previous year, where operating profit of £33.6m was converted to cash of £35.9m. Net capital expenditure represents 21.6% of the operating cash inflow generated in the year, compared to 22.1% in the previous year.

The Group's strategy of funding its acquisitions through a combination of operating cash flows and external borrowings contributed towards the overall cash balances of the Group falling by £3.5m through the year. Additional net debt of only £18.4m arose in the year to fund the Group's £37.5m spend on acquisitions, bringing the total net debt to £87.9m at 31 March 2003. The resulting net gearing has moved from 28.5% to 33.0%.

Year ended 31 March 2002	£'000	£'000
Profit before taxation per financial statements		17,656
Add back of relevant costs:		
Loss on disposal of subsidiary undertakings	969	
Interest payable on borrowings repaid at flotation	11,555	
		12,524
Deduct additional costs on debt for the pre-flotation period		
Interest on bank loans(1)	1,150	
Amortisation of issue costs(2)	41	
		(1,191)
Adjusted profit before taxation		28,989
Tax on adjusted profit before taxation at 29.5%		(8,552)
Adjusted net profit		*20,437*
Weighted average number of shares		517,045
Adjusted basic earnings per share		3.95p

Year ended 31 March 2003	
Basic earnings per share	4.91p
Percentage increase in adjusted basic earnings per share	24.3%

(1) Interest on bank loans is calculated applying an interest rate of 6.5% p.a. for one month and 6.25% p.a. for two months on £68,589,000 and applying non-utilisation fees of 0.5% for three months on the unutilised facility of £38,411,000.

(2) Amortisation of issue costs is the additional amortisation of the issue costs of £771,000 to make the interest charge equal to a full year's amortisation. The issue costs are being amortised over five years and an interest charge of £113,000 is recognised in the financial statements for the year ended 31 March 2002.

Treasury management The Group operates a central treasury function which manages liquidity and interest rate risks with the ultimate objective of ensuring the provision of sufficient cost-effective financing. This function is ultimately responsible to the Board who will sanction all treasury policies adopted. The policies in place to manage these risks are unchanged from those in use at the previous year-end and it remains the Group's policy that no trading in financial instruments shall be undertaken. The Group does not undertake any significant transactions in foreign currency nor have any assets or liabilities denominated in foreign currency.

Liquidity The Group's policy on liquidity is to ensure a balance between continuity of funding and flexibility. Operating cash flows are reinvested in acquisitions and other capital expenditure as far as possible whilst retaining adequate funds to finance ongoing activities. Adequate uncommitted loan facilities are maintained to supplement these cash flows when required.

At 31 March 2003, the Group had sterling bank-borrowing facilities totalling £140.0m, of which £68.4m expires on 29 June 2004, and the remainder on 29 June 2006. £44.3m of these facilities were unutilised at the balance sheet date, although subsequently, an additional £20.0m has been drawn down to partially fund the acquisitions made in that period. The Board is currently considering options to refinance these facilities but do not envisage any difficulties in achieving this. The Group is in compliance with all the covenants relating to these facilities, none of which are restrictive to funding or investment policy. The Board continually monitors actual performance against these covenants.

Interest on borrowings Borrowings under the facilities referred to above account for the large majority of the Group's debt. These borrowings are at floating rates of interest because the Board believes that the current environment of low gearing and high interest cover make the resulting level of interest rate risk acceptable.

Other borrowings comprise outstanding loan notes at floating rates of interest that have been issued to fund selected acquisitions and hire purchase or finance leases at fixed rates of interest. Capital assets are purchased outright rather than through hire purchase or finance leases due to the availability of funds at a more beneficial interest cost than is generally available on such leases. Those hire purchase or finance leases included in the balance sheet were acquired along with various acquisitions.

Interest cover remains strong, being covered eight times by operating profit.

Accounting policies The Board has reviewed the accounting policies used in the preparation of these financial statements and believe each to be the most appropriate. The principal accounting policies are set out in note 1 to the financial statements. There have been no changes to accounting policies in the year.

John Skidmore Finance Director

picture

Board of Directors

From left to right

John Murray Allan
Non-executive director (age 54)

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. Prior to joining Ocean Group, he was a main board Director of BET. He is a non-executive director of Wolseley Plc, Vice Chairman of Freight Forwarding Europe (Trade Association) and President of the Freight Transport Association. John is also a member of the CBI President's Committee.

Jan Gunnar Astrand
Non-executive director (age 56)

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.

picture

Peter James Cohen
Chief Executive (age 50)

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.

Robert David Mackenzie
Non-executive Chairman (age 50)

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.

John Fletcher Skidmore
Finance Director (age 36)

John Skidmore joined the Board of PHS as Finance Director in October 2002 following the resignation of Keith Bland from that post. Before this, he held the post of Group Financial Controller for six years. Before joining PHS, he was an audit manager with Deloitte & Touche, where he had previously qualified as a Chartered Accountant.

Financial statements

Directors' report

for the year ended 31 March 2003

The Directors present their report and the audited financial statements for the year ended 31 March 2003.

Principal activity and business review

The Group is engaged in the provision of workplace services on customers' premises. There are five core business areas that have been operating throughout the year: washroom services, dust mat services, live and replica plants, point of use water dispensers and specialist crate rental. 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 2 to 19.

Results and dividends

Operating profit for the year was £41,216,000 (2002: £33,567,000).

The result for the year after taxation was a profit of £25,402,000 (2002: £18,443,000).

The Board recommends the payment of a final dividend of 0.38p per ordinary share (2002: 0.29p) and paid an interim dividend of 0.17p per ordinary share (2002: 0.13p) on 28 January 2003. Subject to approval by shareholders of the final dividend, a total dividend of 0.55p per ordinary share will be paid in respect of the year at a total cost of £2,844,000. If approved, the Group will pay the final dividend on 20 August 2003 to all shareholders registered on 25 July 2003.

Post balance sheet events

Details of all material post balance sheet events are given in note 31 to these financial statements.

Directors

The Directors of the Company at 31 March 2003 are listed on page 56. K Bland also served on the Board from the start of the year until resigning on 1 October 2002.

Details of the Directors' remuneration, service contracts and interests in shares, share options and debentures are shown in the Remuneration report on pages 25 to 27.

In accordance with the Articles of Association, J F Skidmore having been appointed by the Board to fill a vacancy on 1 October 2002 will retire at the Annual General Meeting and, being eligible, offer himself for re-election. Biographical details of each Director are given on pages 20 and 21.

Details of the role of the Board, including the role of non-executive directors, are given in the Corporate governance statement on pages 28 and 29.

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 47 days (2002: 55 days).

Substantial shareholdings

As at 16 May 2003, 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
FMR Corp/Fidelity International	15.00%
Merrill Lynch Investment Managers	11.56%
SG Asset Management	6.30%
Morley Fund Management	4.46%
Threadneedle Asset Management	4.38%
Legal & General Investment Management	4.21%
Axa Investment Managers UK Limited	4.11%
Abbey National Asset Management	3.44%
Deutsche Asset Management (MGAM UK)	3.12%

Authority to make purchases of own shares

The Board recognises that under certain circumstances, it may be in the best interests of the Company to make purchases of its own shares. With this in mind, the Board received shareholder approval at the previous Annual General Meeting held on 12 July 2002 to make market purchases of its own shares up to a maximum of 51,704,545 shares (being 10% of the Company's ordinary share capital at the date of passing the resolution) within a specified price range. This authority expires at the conclusion of the next Annual General Meeting, due to be held on 11 July 2003. No purchases have been made or are planned under this authority.

It is the intention to introduce a special resolution at this next Annual General Meeting to extend this authority until the end of the following Annual General Meeting. This authority will relate to a maximum of 51,704,739 shares (being 10% of the Company's ordinary share capital) on similar price restrictions. The Board are requesting this authority to allow them to respond rapidly to changes in market conditions where it becomes beneficial to shareholders generally to engage in market purchases of the Company's shares.

Corporate social responsibility

The major part of our business is registered for ISO 9001, the international standard for managing quality and for ISO 14001, the international standard for environmental management systems. Whilst we are not currently registered, we are working towards compliance with OHSAS 18001, the international health and safety standard. The Group employs six permanent staff whose primary responsibility is to monitor the Group's performance in respect of these standards.

Corporate social responsibility also involves companies going beyond their legal obligations and economic and business aims. We are developing our approach slowly whilst carefully monitoring the international standards, which are continuously evolving.

Directors' report continued

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 that we offer our customers.

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

Auditors
Following the conversion of the Group's auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 19 May 2003 and the Directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. Having expressed a willingness to continue in office as auditors, a resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company in accordance with Section 385 of the Companies Act 1985 will be proposed at the next Annual General Meeting.

By order of the Board

John Skidmore
Company Secretary

4 June 2003

Remuneration report

Compliance

This report has been prepared in accordance with the Directors' Remuneration Regulations 2002 and the Combined Code, appended to the Listing Rules, as issued by the Financial Services Authority. The regulations require the auditors to report to the Company's members on the "auditable part" of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the regulations). This report is unaudited with the exception of the two sections headed "Directors' remuneration" and "Directors' interests in shares and share options".

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.

No member of the committee has any personal financial interest (other than as a shareholder), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. No Director plays a part in discussions about his own remuneration.

Remuneration policy

Executive directors' remuneration – the committee makes recommendations to the Board on the Group's framework of executive remuneration and its cost after giving full consideration to compliance with the matters set out in the Combined Code. Where appropriate, reference is made to independent and authoritative surveys.

The committee's policy is to provide salary, bonuses, pension and other benefits to executive directors and other key senior management 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 shareholder value. 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 by including a performance-related element within the remuneration package. The bonus can vary between nil and 30% of each executive director's basic salary, so giving them considerable incentive to perform at the highest levels for the ultimate benefit of the shareholders.

Employee remuneration – most employees, particularly sales and service staff, are incentivised by reference to their individual performance within the framework of the Company's overall performance. All permanent employees are eligible for the Savings-related share option scheme and, in addition, the Company operates an Executive share option scheme for employees who may, from time to time, be selected to participate by the Remuneration committee.

Non-executive directors' remuneration – the remuneration of non-executive directors is a matter specifically reserved for the collective decision of the Board, subject to the limitations set out in the Articles of Association. The total remuneration for non-executive directors may not exceed £400,000 per annum.

Executive directors' remuneration and service contracts

Both executive directors have a rolling service agreement that is terminable by 12 months' notice from either party. Other than for reasons of gross misconduct, if either service agreement is terminated by the Company giving less than 12 months' notice, the Company is liable for the payment of a sum equal to the Director's salary and benefits at the time of termination in lieu of the required period of notice. Alternatively, the Company may continue to provide the benefits during the period.

Any bonus entitlement in respect of any period of notice shall be calculated as though the Director had remained employed during the period of notice and shall be paid at such time as though the Director had remained employed.

Executive directors' service contracts will be available for inspection at the Annual General Meeting.

The present remuneration package for executive directors comprises:

Basic salary – this is reviewed and determined annually by the Remuneration committee. Consideration is given to basic salaries paid by comparable companies and the performance of the executive.

Annual incentive bonus – each executive director is contractually entitled to an annual bonus in respect of each financial year. The bonus can vary between nil and 30% of the Director's basic annual salary dependent upon the audited profit and cash generation achieved by the Group against targets predetermined by the Board.

Other benefits – these comprise health insurance, provision of a company car (or car allowance) and payment for private fuel.

Pensions – Both executive directors are members of the Group's defined contribution pension scheme to which the Group makes regular contributions of 15% of each Director's pensionable earnings in the previous financial year. Pensionable earnings comprise only basic salary and annual incentive bonus.

Non-executive directors' remuneration and terms of appointment

R D Mackenzie was appointed for an initial term of three years with effect from 18 September 2000. The appointment continues thereafter unless and until terminated by not less than three months written notice from either the Company or Mr Mackenzie.

The other non-executive directors were appointed for an initial term of three years with effect from 6 June 2001. Both appointments may be terminated earlier by the Company giving six months written notice or by either Director at any time. In both cases, there is no entitlement to compensation for termination of the appointment for any reason.

The remuneration of all non-executive directors was determined by the Board, commensurate with their experience and contribution to the Group, and remains fixed for the duration of the initial three year term.

Neither the Chairman nor 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.

Remuneration report continued

Directors' remuneration (Audited section)
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	**2003 *Total* £'000**	2002 *Total* £'000	**2003 Pension *payments* £'000**	2002 Pension *payments* £'000
Non-executive Chairman							
R D Mackenzie	75	–	–	**75**	73	**–**	–
Executive directors							
P J Cohen*	190	16	13	**219**	199	**29**	45
K Bland†	48	–	8	**56**	114	**9**	15
J F Skidmore†	50	9	2	**61**	–	**4**	–
Non-executive directors							
J M Allan‡	60	–	–	**60**	49	**–**	–
J G Astrand	60	–	–	**60**	49	**–**	–
	483	25	23	**531**	484	**42**	60

*Highest paid Director.

†K Bland resigned as Director with effect from 1 October 2002 and was replaced on that date by J F Skidmore. No compensation for loss of office or any other payment connected to his termination from office was paid to Mr Bland other than the remuneration to which he was entitled for the period to 1 October 2002 under the terms of his service contract, which contained similar provisions to the current executive directors' contracts.

‡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.

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

Pension contributions up to the Inland Revenue cap were made to the Group's defined contribution scheme. Payments in excess of this cap are paid to the executive directors as a taxable emolument but disclosed as pension contributions in the above table because they are paid on the express basis and understanding that payment is for the purpose of pension contributions.

Executive share option scheme
The Company operates a discretionary executive share option scheme, which is only available to employees and full-time Directors who may, from time to time, be selected by the Remuneration committee to participate. The committee regard this scheme as the principal long-term incentive for the Group's senior management.

The 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. Any grants in excess of this limit are made under the unapproved Section A scheme.

No eligible employee is entitled as of right to participate in the discretionary scheme. No payment is required on the grant of an option, which is always at the market value on the date of the grant.

No options under the scheme were granted to executive directors during the year and no options under the scheme have been granted to executive directors since the scheme was approved by shareholders in June 2001.

In relation to other employees who were selected to participate in the scheme by the Remuneration committee, options over 1,136,581 shares were granted in December 2001 at 88p per share, of which 54,598 lapsed in the year. An additional 2,139,880 options were granted during the year, of which 2,053,918 were at 94.5p per share and the remaining 85,962 at 79.5p. All options are subject to a performance criteria that they will only be exercisable if the Company's earnings per share over a three-year period exceeds the increase in the Retail Prices Index plus 2% per annum over the same period.

Savings-related share option scheme
The PHS Group Savings-Related Share Option scheme is eligible to all employees, including executive directors. When a contract is initiated, options are granted to acquire the number of shares that the total savings will buy when the contract matures three years into the future.

Employees make fixed monthly contributions of up to £250 per month over the three-year contractual period. At the end of this period employees have the right to buy shares in the Company at the 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 before the offer date.

Directors' interests in shares and share options (Audited section)

The beneficial interests of the Directors and their families in the ordinary shares of the Company at 31 March are set out below:

	Interest in ordinary shares of the Company	
	31 March 2003 Number	31 March 2002* Number
R D Mackenzie	**2,045,452**	2,045,452
J F Skidmore	**506,250**	506,250
P J Cohen	**7,500,000**	7,290,000
J M Allan	**134,756**	134,756
J G Astrand	**60,000**	60,000

*Or date of appointment if later.

No Director has been granted any option over the shares of the Company or other Group company in respect of qualifying service.

P J Cohen has a beneficial interest in the Company through the Group's savings-related share option scheme. An option over 13,644 shares was granted to Mr Cohen on 1 December 2001 at 71p per share, exercisable at any time from 1 December 2004 onwards.

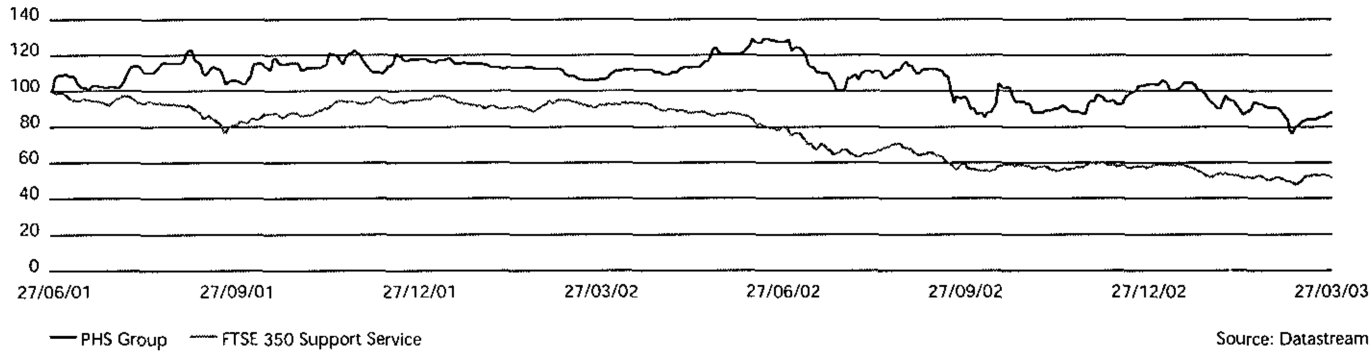
There has been no change in the interests stated between 31 March 2003, and the date on which these financial statements were signed on behalf of the Board.

Total shareholder return

The performance graph below illustrates the total shareholder return ("TSR") delivered by the Group since its admittance to the London Stock Exchange in June 2001, in comparison to the TSR delivered by the FTSE 350 Support Services Index. TSR is the measure of the returns provided by the Group to its shareholders, reflecting movements in share price and assuming reinvestment of dividends when paid.

After due consideration and taking into account the size of the Group and its mix of activities, the Board decided that the FTSE 350 Support Services Index is the most appropriate index against which the TSR of the Group should be measured because it is an index of similar size companies operating in the same business sector as the Group.

The graph demonstrates that since its flotation in June 2001, the Group has significantly outperformed the FTSE 350 Support Services Index.



Source: Datastream

Approval

This report was approved by the Board of Directors on 4 June 2003 and signed on its behalf by:

J F Skidmore
Company Secretary

Corporate governance

Combined code

The Group is committed to achieving the highest standards of corporate governance and acting with the utmost integrity in all dealings. This statement, together with the Remuneration report on pages 25 to 27, explains the manner in which the Group has applied the provisions of the Combined Code for Corporate Governance ("the code") in order to meet its commitments.

Throughout the year ended 31 March 2003 the Board believes that the Group has complied with the code.

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 pages 20 and 21, and demonstrate that the Board contains sufficient experience and ability to provide effective leadership.

All three non-executive directors bring a range of business, finance and other relevant experience to the Group. Each makes a significant contribution to the functioning of the Board by applying his judgement and bringing his experience to bear in all decision-making processes. The Board considers both J G Astrand and J M Allan to be independent of management and J G Astrand has been appointed as the Senior Independent Director.

The Board has a formal schedule of matters specifically reserved for its collective decision. This schedule includes any question regarding the appointment or removal of any Director or Company Secretary; the composition and terms of reference of each of the Remuneration, Nomination and Audit committees; strategic policy; approval of all material acquisitions and divestments; and approval of annual budgets and forecasts.

On appointment, all Directors are given an induction programme designed to give them appropriate training to properly fulfil their roles. This programme includes meetings with, and presentations from, appropriate senior management combined with visits to a number of operational depots. Additional training is arranged at any time when a Director requires it to assist in the proper discharge of his 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 the notice convening any Annual General Meeting, will have held office for more than 30 months since appointment, or reappointment at a General Meeting, must retire from office at that Annual General Meeting, but may submit him or herself for re-election.

The Board met nine times during the current financial year, supplemented by frequent contact between meetings and additional strategic discussions. 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 of the Company Secretary who is responsible for ensuring that Board procedures are followed and that all applicable rules and regulations are complied with.

At least one week before every 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, which include in depth reports on the performance of each operating division. The accounts are supplemented by written reports from the executive directors and appropriate financial analysis. Other papers presented 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 requests changes that they believe will offer more appropriate information.

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 have been approved by the Board.

Remuneration committee

The composition and work of the Remuneration committee is set out in the Remuneration report on pages 25 to 27.

Nomination committee

The Nomination 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 requested by any member. The 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 reappointment of non-executive directors; and whether Directors retiring in accordance with the Articles of Association should be put forward for re-election.

The Nomination committee continuously reviews the composition of the Board to ensure that it contains the necessary skills, knowledge and experience to properly discharge its duties.

Following the resignation of K Bland during the year, the Nomination committee undertook a detailed search to identify the best available replacement of the appropriate calibre. This search included the involvement of external consultants.

As a result, the committee recommended the appointment of J F Skidmore in the role of Finance Director until the next Annual General Meeting. The committee has reviewed his performance in this role and recommends that he be put forward for re-election at the forthcoming Annual General Meeting.

Audit committee

The Audit 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 request of either the Chairman or external auditors. The 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 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 committee has the authority to invite executive directors and representatives of the external auditors to meetings as necessary. Access to the advice of the external auditors without the presence of the executive directors is available.

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 judgements have been exercised; and 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, compliance, and risk management. The Directors' procedures for reviewing the effectiveness of the system of internal control have been in place throughout the year and to the date of approval of the financial statements. 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 the 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 budget 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 restricted to amounts approved in the annual budget and half-year budget review process. Any significant over-spend can only occur after approval from the Board;
- Detailed written proposals are submitted to the Board before any decision is made on authorising investment in acquisitions. Due diligence reviews are always performed by the Group's own staff along with extensive use of external advisers; and
- Regular reviews of the systems and procedures in place at each remote location are performed.

Independence of auditors
PricewaterhouseCoopers LLP currently act as the Group's auditors. Both the Audit committee and the auditors themselves have safeguards in place to ensure that the objectivity and independence of the auditors is maintained. In addition to the annual appointment of the auditors by the shareholders, the Audit committee regularly reviews their performance and fees charged to ensure that the Group continues to receive value for money.

Non-audit work in respect of taxation and the due diligence process before significant acquisitions is also carried out by PricewaterhouseCoopers LLP, as the Board believes that it is in the Group's best interests to make use of their extensive knowledge of the business. The Board continuously monitors the quality and volume of this work and will, where appropriate, use other accounting firms (or other appropriately qualified organisations).

Details of the fees for both audit and non-audit work are given in note 3 to the financial statements.

Shareholder communication
Communication with shareholders is given a high priority by the Group with designated members of the Board meeting regularly with institutional investors, analysts and other parties. 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 different 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.

The Group's website, www.phs.co.uk, provides additional information for both shareholders and the general public.

Going concern
The Board has reviewed and approved the Group's budget for the financial year ending March 2004 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 has concluded that it is appropriate to prepare the accounts of both the Group and Company on the going concern basis.

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 and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ("the auditable part").

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration 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 and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' remuneration report have been 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 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, the unaudited part of the Directors' 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 of the Financial Services Authority, 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 and the auditable part of the Directors' remuneration report. 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 and auditable part of the Directors' remuneration report 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 2003 and of the profit and cash flows of the Group for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- Those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cardiff

4 June 2003

Consolidated profit and loss account

for the year ended 31 March 2003

	Notes	**Year ended 31 March 2003 £'000**	Year ended 31 March 2002 £'000
Turnover	2		
Continuing operations – excluding Teacrate		**134,139**	114,665
Acquisitions – Teacrate only (see below)		**5,763**	-
Continuing operations		**139,902**	114,665
Discontinued operations		**-**	402
		139,902	115,067
Operating profit/(loss)	2,3		
Continuing operations – excluding Teacrate		**39,434**	33,569
Acquisitions – Teacrate only (see below)		**1,782**	-
Continuing operations		**41,216**	33,569
Discontinued operations		**-**	(2)
		41,216	33,567
Loss on disposal of subsidiary undertakings		**-**	(969)
Interest receivable and similar income		**-**	31
Interest payable and similar charges	5	**(5,182)**	(14,973)
Profit on ordinary activities before taxation		**36,034**	17,656
Tax on profit on ordinary activities	6	**(10,632)**	787
Profit on ordinary activities after taxation		**25,402**	18,443
Dividends paid and proposed	7	**(2,844)**	(2,172)
Retained profit for the year	22	**22,558**	16,271

Earnings per share	8		
Basic earnings per share		**4.91p**	4.18p
Diluted earnings per share		**4.91p**	4.18p

The Group has no recognised gains or losses other than those disclosed above and therefore no separate statement of total recognised gains and losses has been presented.

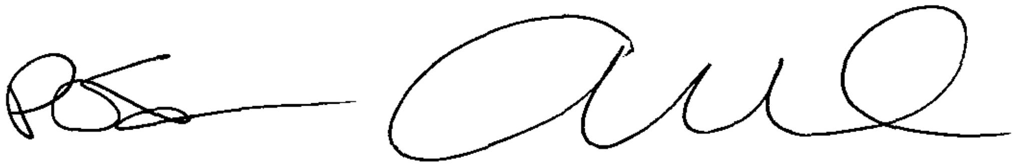
Continuing operations include the results of acquisitions made during the year. Other than in the case of the acquisition of Teacrate Rentals Limited, it is not practicable to determine the post-acquisition turnover and operating profit of businesses acquired during the year. This is because the trade and assets of the companies or businesses acquired are incorporated into the existing trade and assets of the Group and their results are not separately identifiable post-acquisition.

Balance sheets

at 31 March 2003

	Notes	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Fixed assets					
Intangible assets	9	**345,238**	307,990	**-**	-
Tangible assets	10	**31,832**	26,894	**-**	-
Investments	11	**-**	-	**324,288**	312,586
		377,070	334,884	**324,288**	312,586
Current assets					
Stocks	12	**3,827**	2,701	**-**	-
Debtors	13	**38,555**	34,135	**14,458**	5,182
Cash		**5,938**	9,418	**19,099**	873
		48,320	46,254	**33,557**	6,055
Creditors: Amounts falling due within one year	14	**(29,588)**	(34,005)	**(8,699)**	(1,851)
Net current assets		**18,732**	12,249	**24,858**	4,204
Total assets less current liabilities		**395,802**	347,133	**349,146**	316,790
Creditors: Amounts falling due after more than one year	15	**(91,450)**	(67,963)	**(91,323)**	(67,931)
Provisions for liabilities and charges	18	**-**	-	**(249)**	(249)
Accruals and deferred income	19	**(37,874)**	(35,251)	**-**	-
Net assets	2	**266,478**	243,919	**257,574**	248,610
Capital and reserves					
Called up share capital	21	**51,705**	51,705	**51,705**	51,705
Share premium account	22	**187,725**	187,724	**187,725**	187,724
Profit and loss account	22	**27,048**	4,490	**18,144**	9,181
Equity shareholders' funds	23	**266,478**	243,919	**257,574**	248,610

The financial statements were approved by the Board of Directors on 4 June 2003 and were signed on its behalf by:



P J Cohen
Director

J F Skidmore
Director

Consolidated cash flow statement

for the year ended 31 March 2003

	Notes	**Year ended 31 March 2003 £'000**	Year ended 31 March 2002 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		**41,216**	33,567
Depreciation		**8,016**	6,454
Loss/(Profit) on disposal of tangible fixed assets		**99**	(324)
Increase in stocks		**(776)**	(3)
Increase in debtors		**(2,589)**	(5,444)
Increase in creditors		**853**	1,671
Net cash inflow from operating activities		**46,819**	35,921
Returns on investments and servicing of finance	24	**(5,052)**	(38,457)
Taxation paid		**(7,544)**	(1,970)
Capital expenditure	24	**(10,090)**	(7,950)
Acquisitions and disposals	24	**(45,894)**	(17,911)
Equity dividends paid		**(2,379)**	(672)
Cash outflow before financing		**(24,140)**	(31,039)
Financing	24	**20,660**	39,969
(Decrease)/Increase in cash	25	**(3,480)**	8,930

Notes to the financial statements

for the year ended 31 March 2003

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.

All existing accounting policies have been reviewed in detail during the year and are considered to be the most appropriate to the circumstances of both the Company and the Group. No change to any accounting policy has been made in the year.

A summary of the more important accounting policies is set out 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 comprises the invoiced value of goods sold (which is recognised on despatch) and the rentals receivable on operating leases (as described further below), exclusive of value 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 10 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 28. 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.

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 2003 would be reduced by £16,739,000 (2002: £14,682,000), with a corresponding reduction in reserves and intangible assets. The cumulative amount that would have been written off against reserves is £53,724,000.

Notes to the financial statements continued

1 Principal accounting policies (continued)

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.

Finance leases
Leasing agreements (including equivalent hire purchase or finance 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
A deferred tax liability is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. A deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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 2003 £'000	Year ended 31 March 2002 £'000
Continuing operations		
Rental (operating leases)	**122,777**	102,428
Sales	**17,125**	12,237
	139,902	114,665
Discontinued operations		
Rental (operating leases)	**–**	402
	139,902	115,067

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

	Year ended 31 March 2003			Year ended 31 March 2002		
	Turnover £'000	**Operating profit/(loss) £'000**	***Profit margin***	Turnover £'000	Operating profit/(loss) £'000	*Profit margin*
Continuing operations						
PHS Washrooms: *Washroom services*	**99,459**	**46,006**	***46.3%***	83,785	39,970	47.7%
PHS Treadsmart: *Dust mat services*	**14,419**	**3,940**	***27.3%***	13,524	3,370	24.9%
PHS Greenleaf: *Live and replica plants*	**13,183**	**2,010**	***15.2%***	14,065	1,984	14.1%
PHS Waterlogic: *Point of use water dispensers*	**7,078**	**2,580**	***36.5%***	3,291	862	26.2%
Teacrate: *Crate rental*	**5,763**	**1,782**	***30.9%***	–	–	
	139,902	**56,318**	***40.3%***	114,665	46,186	40.3%
Central costs						
Normal	**–**	**(14,261)**		–	(11,712)	
Exceptional	**–**	**(841)**		–	(905)	
	139,902	**41,216**	***29.5%***	114,665	33,569	29.3%
Discontinued operations	**–**	**–**		402	(2)	
	139,902	**41,216**	***29.5%***	115,067	33,567	29.2%

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, which were sold in the year ended 31 March 2002.

Exceptional central costs comprise 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:

	2003 £'000	2002 £'000
PHS Washrooms: *Washroom services*	**293,922**	269,222
PHS Treadsmart: *Dust mat services*	**14,469**	14,221
PHS Greenleaf: *Live and replica plants*	**16,701**	16,479
PHS Waterlogic: *Point of use water dispensers*	**15,422**	12,710
Teacrate: *Crate rental*	**17,730**	–
	358,244	312,632
Less: Group net debt	**(87,916)**	(69,536)
Less: Proposed dividends	**(1,965)**	(1,500)
(Less)/Add: Taxation	**(1,885)**	2,323
	266,478	243,919

Net assets are principally located in the United Kingdom.

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 2003			Year ended 31 March 2002		
	Continuing operations £'000	Acquisitions (Teacrate only) £'000	**Total £'000**	Continuing operations £'000	Discontinued operations £'000	Total £'000
Change in stocks	755	–	**755**	39	(42)	(3)
Own work capitalised	(2,402)	–	**(2,402)**	(1,280)	–	(1,280)
Raw materials and consumables	12,388	–	**12,388**	12,875	62	12,937
Employee costs (note 4)	44,689	1,899	**46,588**	40,844	251	41,095
Depreciation	7,613	403	**8,016**	6,427	27	6,454
Other operating charges	31,662	1,679	**33,341**	22,191	106	22,297
	94,705	3,981	**98,686**	81,096	404	81,500

Included within depreciation above is £100,000 (2002: £40,000) of depreciation on assets held under hire purchase or finance leases.

Operating profit is stated after charging/(crediting):

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Rentals under operating leases:		
Land and buildings	**1,426**	762
Plant and machinery	**4,891**	3,706
Other assets	**6**	422
Fees paid to auditors:		
Audit services (Company: £nil)	**93**	75
Other services	**53**	95
Property rents receivable	**(92)**	(108)
Grant income	**–**	(80)
Loss/(Profit) on disposal of tangible fixed assets	**99**	(324)

In addition to the amounts noted above, fees of £336,000 (2002: £723,000) have been paid to the Group's auditors for non-audit services. £336,000 (2002: £173,000) of these fees were paid and capitalised within goodwill in respect of acquisitions during the year and £nil (2002: £550,000) were paid and written off against the share premium account in respect of the flotation.

4 Directors and employees

Directors' emoluments for the year comprise:

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Salaries for management services	**313**	293
Fees	**195**	171
Other emoluments (including benefits in kind)	**23**	20
	531	484
Contributions to money purchase pension schemes	**42**	60
	573	544

Further details of Directors' emoluments and of the highest paid Director are given in the Remuneration report on pages 25 to 27 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 2003 Number	Year ended 31 March 2002 Number
Administration	**460**	391
Sales	**447**	385
Service	**1,445**	1,355
	2,352	2,131

4 Directors and employees (continued)

Employee costs for the above persons were:

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Wages and salaries	**42,063**	36,969
Social security costs	**3,734**	3,381
Other pension costs	**791**	745
	46,588	41,095

5 Interest payable and similar charges

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
In respect of borrowings repaid in the year ended 31 March 2002		
Interest payable on secured senior debt	**–**	3,714
Interest payable on unsecured subordinated loan notes	**–**	3,559
Amortisation of issue costs	**–**	3,220
Exceptional interest rate swap cancellation fee	**–**	1,062
	–	11,555
Other interest payable		
On bank loans and overdrafts	**4,805**	3,050
Amortisation of issue costs	**223**	113
On acquisition loan notes	**120**	251
On hire purchase or finance leases	**34**	4
	5,182	3,418
	5,182	14,973

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 (2002: £nil).

Included within interest paid in the year ended 31 March 2002 were exceptional items comprising £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.

6 Tax on profit on ordinary activities

(a) Analysis of charge/(credit) in the year

The taxation charge/(credit) is made up as follows:

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Current tax		
UK corporation tax on profits for the year	**9,583**	4,043
Adjustments in respect of prior periods	**(135)**	(27)
	9,448	4,016
Deferred tax		
Origination and reversal of timing differences	**1,184**	(4,803)
	10,632	(787)

Notes to the financial statements continued

6 Tax on profit on ordinary activities (continued)

(b) Factors affecting the current tax charge for the year
The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Profit before taxation	**36,034**	17,656
Profit multiplied by the standard rate of corporation tax in the UK of 30%	**10,810**	5,297
Effects of:		
Temporary differences between taxable and accounting profit:		
Accelerated capital allowances	**(964)**	(1,562)
Losses	**(183)**	–
Other short-term timing differences	**(39)**	–
Prior year credit	**(135)**	(27)
Permanent differences	**(41)**	308
Current tax charge for the year (note 6(a))	**9,448**	4,016

The deferred tax asset/(liability) is made up as follows:

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Accelerated depreciation over capital allowances	**1,982**	3,505	**–**	–
Capital gains/revaluations	**(249)**	(249)	**(249)**	(249)
Tax losses carried forward	**1,362**	1,545	**–**	–
	3,095	4,801	**(249)**	(249)

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

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
At 1 April	**4,801**	–	**(249)**	–
Transferred in from acquired company	**(522)**	(2)	**–**	–
Profit and loss account	**(1,184)**	4,803	**–**	(249)
At 31 March	**3,095**	4,801	**(249)**	(249)

7 Dividends paid and proposed

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Equity – Ordinary shares of 10p each		
Interim dividends paid: 0.17p (2002: 0.13p) per ordinary share	**879**	672
Final dividends proposed: 0.38p (2002: 0.29p) per ordinary share	**1,965**	1,500
	2,844	2,172

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

8 Earnings per share

Basic and diluted earnings 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 2003			
Profit after taxation (£'000)	25,402	–	25,402
Weighted average number of shares in issue ('000 shares)	517,047	180	517,227
Earnings per share	**4.91p**		**4.91p**
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

The adjustments between the basic and diluted EPS reflect the grant of share options in 2001 under the Group's savings related share option scheme (see note 21).

9 Intangible fixed assets

Group	Purchased Goodwill £'000
Cost and net book value	
At 1 April 2002	307,990
Adjustments to prior year provisional fair values	(33)
Additions	37,281
At 31 March 2003	**345,238**

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 28.

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 2002. 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 2002 where final information was not available at the time of preparing the financial statements for that year.

During the year ended 31 March 2003, 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.

10 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 2002	11,313	830	20,436	10,272	2,539	45,390
Acquisition of subsidiary undertakings	117	–	1,875	970	–	2,962
Additions	328	14	7,567	2,087	273	10,269
Disposals	(3)	–	(3,488)	(1,177)	–	(4,668)
At 31 March 2003	**11,755**	**844**	**26,390**	**12,152**	**2,812**	**53,953**
Accumulated depreciation						
At 1 April 2002	(222)	(170)	(11,063)	(5,247)	(1,794)	(18,496)
Charge for the year	(113)	(95)	(5,372)	(2,093)	(343)	(8,016)
Disposals	–	–	3,309	1,082	–	4,391
At 31 March 2003	**(335)**	**(265)**	**(13,126)**	**(6,258)**	**(2,137)**	**(22,121)**
Net book value						
At 31 March 2003	**11,420**	**579**	**13,264**	**5,894**	**675**	**31,832**
At 31 March 2002	11,091	660	9,373	5,025	745	26,894

Additions to other equipment and vehicles include £430,000 in respect of assets in the course of construction that have not been depreciated in the year.

The net book value of assets held under hire purchase or finance leases is £280,000 (2002: £111,000).

Notes to the financial statements continued

11 Investments

Company	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total £'000
Cost and net book value			
At 1 April 2002	200	312,386	312,586
Additions	–	11,702	11,702
At 31 March 2003	**200**	**324,088**	**324,288**

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 2003 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	10p deferred shares	100% (indirect)	Intermediate holding company
	$0.05 ordinary shares	100% (indirect)	
Teacrate plc (formerly PHS Rentals plc)	£1 ordinary shares	100% (indirect)	Intermediate holding company
Teacrate Rentals Limited (formerly Teacrate plc)	10p ordinary shares	100% (indirect)	Specialist crate rental

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

12 Stocks

Group	2003 £'000	2002 £'000
Raw materials	**272**	225
Finished goods	**3,555**	2,476
	3,827	2,701

13 Debtors

	Group		Company	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Falling due within one year:				
Trade debtors	**32,445**	26,477	**–**	–
Amounts owed by group undertakings	**–**	–	**14,366**	5,023
Other debtors	**463**	128	**92**	14
Recoverable deferred tax	**300**	575	**–**	–
Prepayments and accrued income	**2,452**	2,055	**–**	145
	35,660	29,235	**14,458**	5,182
Falling due after more than one year:				
Recoverable deferred tax	**2,795**	4,226	**–**	–
Prepayments and accrued income	**100**	674	**–**	–
	38,555	34,135	**14,458**	5,182

14 Creditors: amounts falling due within one year

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Bank and other borrowings (see note 16)	**2,404**	10,991	**-**	-
Trade creditors	**7,050**	6,597	**-**	-
Amounts owed to group undertakings	**-**	-	**3,806**	125
Dividends payable	**1,965**	1,500	**1,965**	1,500
Other creditors	**7,126**	7,967	**227**	223
Corporation tax	**4,980**	2,478	**2,701**	3
Other taxation and social security	**6,063**	4,472	**-**	-
	29,588	34,005	**8,699**	1,851

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Bank and other borrowings (see note 16)	**91,450**	67,963	**91,323**	67,931

16 Bank and other borrowings

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Amounts falling due within one year:				
Acquisition loan notes	**2,249**	10,883	**-**	-
Obligations under hire purchase or finance leases	**155**	108	**-**	-
	2,404	10,991	**-**	-
Amounts falling due after more than one year:				
Bank loan	**91,323**	67,931	**91,323**	67,931
Obligations under hire purchase or finance leases	**127**	32	**-**	-
	91,450	67,963	**91,323**	67,931

The bank loan and acquisition 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 two instalments, the first falling in June 2004, and the other in June 2006.

The acquisition loan notes were issued as partial consideration for a number of the Group's acquisitions made in the three years to 31 March 2003. 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 acquisition loan notes, £1,400,000 pays interest at 1.5% below LIBOR and £849,000 at 1% below LIBOR.

Each hire purchase and finance lease is secured on the assets under lease and bears interest at an implicit fixed rate that varies between 7% and 11% per annum.

Notes to the financial statements continued

17 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.

The Group's functional and reporting currency is sterling. Since the Group has no operations based overseas and 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 with the objective of managing interest rate risks. The most substantial borrowings currently attract interest at rates linked to LIBOR. In the current environment of low gearing and high interest cover, the Directors consider that the level of interest rate risk is acceptable and do not believe it to be appropriate to hedge this risk at this time. The Group has a strategy of using a combination of these borrowings and internally generated cash to finance its acquisitions.

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 was as follows:

	31 March 2003			31 March 2002		
	Fixed rate £'000	Floating rate £'000	**Total £'000**	Fixed rate £'000	Floating rate £'000	Total £'000
Financial assets	–	5,938	**5,938**	–	9,418	9,418
Financial liabilities	(282)	(93,572)	**(93,854)**	(2,122)	(76,832)	(78,954)
	(282)	(87,634)	**(87,916)**	(2,122)	(67,414)	(69,536)

Financial liabilities and assets are 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 16. 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		Fixed rate financial liabilities weighted average interest rate	
	2003 Years	2002 Years	**2003 %**	2002 %
Sterling borrowings	**2.1**	0.7	**8.6**	5.1

The weighted average period is based on the maturity of the respective debt.

(c) Borrowing facilities and liquidity risk

The Group had undrawn committed borrowing facilities at 31 March 2003, consisting of a £13,600,000 working capital facility (2002: £6,542,000), and a £30,720,000 auxiliary facility (2002: £17,547,000).

These undrawn committed borrowing facilities expire on 29 June 2004.

(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 because substantially all of these borrowings attract interest at a floating rate.

	31 March 2003		31 March 2002	
	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	**(2,404)**	**(2,404)**	(10,991)	(10,991)
Long-term borrowings	**(91,450)**	**(91,450)**	(67,963)	(67,963)
Cash at bank and in hand	**5,938**	**5,938**	9,418	9,418
	(87,916)	**(87,916)**	(69,536)	(69,536)

17 Financial instruments (continued)

(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 2003
	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	–	(23,244)	(68,079)	–	**(91,323)**
Acquisition loan notes	(2,249)	–	–	–	**(2,249)**
Obligations under hire purchase or finance leases	(155)	(86)	(41)	–	**(282)**
	(2,404)	(23,330)	(68,120)	–	**(93,854)**

					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
Acquisition loan notes	10,883	–	–	–	10,883
Obligations under hire purchase or finance leases	108	32	–	–	140
	10,991	32	67,931	–	78,954

(f) Currency risks
All assets and liabilities of the Group at both 31 March 2003 and 31 March 2002 are denominated in sterling.

18 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 6.

19 Accruals and deferred income

Group	**2003 £'000**	2002 £'000
Accruals	**4,435**	3,491
Deferred income	**33,439**	31,760
	37,874	35,251

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

20 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 4.

Notes to the financial statements continued

21 Called up share capital

Group and Company	2003 £'000	2002 £'000
Authorised		
695,000,000 ordinary shares of 10p each	**69,500**	69,500
Allotted, issued and fully paid		
517,047,388 (2002: 517,045,452) ordinary shares of 10p each	**51,705**	51,705

During the year, 1,936 ordinary shares were issued at 71p per share following the exercise of an option granted in 2001 under the terms of the savings related share option scheme.

At 31 March 2003, 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 2003	Number of 10p ordinary shares 2002
Savings related share option schemes	2001	71p	2004–2005	**1,842,503**	2,292,706
	2002	76p	2005–2006	**574,700**	–
Discretionary share option scheme	2001	88p	2004–2011	**1,081,983**	1,136,581
	2002	94.5p	2005–2012	**2,053,918**	–
	2002	79.5p	2005–2012	**85,962**	–

22 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 2002	187,724	4,490	187,724	9,181
Premium on issue of shares	1	–	1	–
Retained profit for the financial year	–	22,558	–	8,963
At 31 March 2003	**187,725**	**27,048**	**187,725**	**18,144**

A profit of £11,807,000 on ordinary activities after taxation arose in the Company (2002: £11,335,000).

23 Reconciliation of movements in shareholders' funds/(deficit)

	Group		Company	
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Profit on ordinary activities after taxation	**25,402**	18,443	**11,807**	11,335
Dividends paid and proposed	**(2,844)**	(2,172)	**(2,844)**	(2,172)
Retained profit for the financial year	**22,558**	16,271	**8,963**	9,163
New share capital subscribed	**1**	250,000	**1**	250,000
Write-off of expenses and commission on the public issue of shares	**–**	(12,491)	**–**	(12,491)
	22,559	253,780	**8,964**	246,672
Opening shareholders' funds/(deficit)	**243,919**	(9,861)	**248,610**	1,938
Closing shareholders' funds	**266,478**	243,919	**257,574**	248,610

24 Analysis of other headings in the cash flow statement

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Returns on investments and servicing of finance		
Interest received	-	31
Interest paid on secured senior debt	-	(7,708)
Interest paid on unsecured subordinated loan notes	-	(25,254)
Exceptional interest rate swap cancellation fee	-	(1,062)
Interest paid on bank loans and overdrafts	**(4,681)**	(3,022)
Issue costs incurred in respect of borrowings subsequently paid	-	(416)
Issue costs incurred in respect of outstanding bank loans	**(188)**	(771)
Interest paid on acquisition loan notes	**(149)**	(251)
Interest paid on hire purchase or finance leases	**(34)**	(4)
	(5,052)	(38,457)
Capital expenditure		
Purchase of equipment installed at customers' premises	**(7,567)**	(6,028)
Purchase of other tangible fixed assets	**(2,702)**	(2,865)
Proceeds of sale of tangible fixed assets	**179**	943
	(10,090)	(7,950)
Acquisitions and disposals		
Acquisition of subsidiaries and other businesses	**(45,564)**	(18,071)
Acquisition expenses	**(1,257)**	(720)
Net cash acquired	**927**	684
Disposal of subsidiaries	-	577
Disposal expenses	-	(220)
Net cash disposed	-	(161)
	(45,894)	(17,911)
Financing		
Receipt of bank loans	**23,357**	68,589
Receipt of secured senior debt	-	2,700
Repayment of bank loans	**(2,414)**	-
Repayment of secured senior debt	-	(146,085)
Repayment of unsecured subordinated loan notes	-	(122,655)
Proceeds from issue of ordinary shares	**1**	250,000
Expenses and commission paid in respect of the issue of ordinary shares	-	(12,491)
Repayment of capital element of hire purchase or finance leases	**(284)**	(89)
	20,660	39,969

Other than in the case of the acquisition of Teacrate Rentals Limited, the trade and assets of acquisitions made during the year have been amalgamated into the existing trade of the Group and therefore their effects on the reported cash flows cannot be determined. The cash flows included above and relating to the post acquisition activities of Teacrate Rentals Limited are summarised below:

	Year ended 31 March 2003 £'000
Net cash inflow from operating activities	**1,893**
Returns on investment and servicing of finance	**(11)**
Taxation paid	**(779)**
Capital expenditure	**(305)**
Financing	**(89)**
Increase in cash	**709**

Notes to the financial statements continued

25 Movements in net debt

	At 1 April 2002 £'000	Cash flow £'000	Acquisitions (excluding cash and overdrafts) £'000	Other non-cash changes £'000	**At 31 March 2003 £'000**
Cash at bank and in hand	9,418	(3,480)	–	–	**5,938**
Debt due within one year					
Bank loans	–	2,414	(2,414)	–	**–**
Acquisition loan notes	(10,883)	10,151	–	(1,517)	**(2,249)**
Obligations under hire purchase or finance leases	(108)	284	(426)	95	**(155)**
	(10,991)	12,849	(2,840)	(1,422)	**(2,404)**
Debt due after more than one year					
Bank loans	(67,931)	(23,169)	–	(223)	**(91,323)**
Obligations under hire purchase or finance leases	(32)	–	–	(95)	**(127)**
	(67,963)	(23,169)	–	(318)	**(91,450)**
Net debt	(69,536)	(13,800)	(2,840)	(1,740)	**(87,916)**

26 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
(Decrease)/Increase in cash during the year	**(3,480)**	8,930
Cash flow from (increase)/decrease in debt and lease financing	**(10,320)**	224,699
Change in net debt resulting from cash flows	**(13,800)**	233,629
Bank loans and leases acquired with subsidiaries	**(2,840)**	(145)
Changes in net debt resulting from non-cash changes	**(1,740)**	(13,934)
Movement in net debt in the year	**(18,380)**	219,550
Net debt at 1 April	**(69,536)**	(289,086)
Net debt at 31 March	**(87,916)**	(69,536)

Non-cash changes comprise £223,000 of amortisation of debt issue costs and £1,517,000 of acquisition loan notes issued as partial consideration for acquired businesses.

27 Capital commitments

The Group had capital commitments of £54,000 at 31 March 2003 (2002: £nil). The Company had no capital commitments at 31 March 2003 (2002: £nil).

28 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**
Teacrate Rentals Limited (formerly Teacrate plc)	Company	8 April 2002	14,572
The Well Corporation Limited	Company	3 May 2002	5,697
Hygeni-Care Limited	Company	20 September 2002	3,195
Redland Hygiene Limited	Company	18 October 2002	2,269
Britannia Hygiene plc	Company	2 December 2002	3,769
Other companies and businesses			7,968
Total for all acquisitions			**37,470**

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 set out the purchased goodwill arising.

28 Acquisitions (continued)

Teacrate Rentals Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Intangible fixed assets	2,475	(2,475)	–
Tangible fixed assets	2,497	–	2,497
Debtors	1,430	(14)	1,416
Cash	423	–	423
Total assets	6,825	(2,489)	4,336
Bank loan	(2,156)	–	(2,156)
Other creditors	(1,570)	(57)	(1,627)
Provision for liabilities and charges	(511)	–	(511)
Net assets/(liabilities)	2,588	(2,546)	42
Purchased goodwill			14,530
Consideration			14,572
Satisfied by			
Cash			13,526
Deferred cash consideration			500
Acquisition expenses			546
			14,572

Teacrate plc made a profit after tax of £553,000 from 1 July 2001 to the date of acquisition and a profit after tax of £1,094,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of provision against irrecoverable debtor balances, recognition of liabilities and writing off acquired goodwill.

The Well Corporation Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	279	(56)	223
Stocks	15	–	15
Debtors	805	–	805
Cash	68	–	68
Total assets	1,167	(56)	1,111
Creditors	(625)	–	(625)
Net assets/(liabilities)	542	(56)	486
Purchased goodwill			5,211
Consideration			5,697
Satisfied by			
Cash			5,300
Deferred cash consideration			300
Acquisition expenses			97
			5,697

The Well Corporation Limited made a loss after tax of £768,000 from incorporation on 15 January 2001 to the date of acquisition. This was the first accounting period of the company.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition and depreciation.

Notes to the financial statements continued

28 Acquisitions (continued)

Hygeni-Care Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Tangible fixed assets	71	(47)	24
Stocks	111	(109)	2
Debtors	129	6	135
Cash	190	–	190
Total assets	501	(150)	351
Creditors	(204)	(59)	(263)
Net assets/(liabilities)	297	(209)	88
Purchased goodwill			3,107
Consideration			3,195
Satisfied by			
Cash			3,100
Deferred cash consideration			23
Acquisition expenses			72
			3,195

Hygeni-Care Limited made a profit after tax of £311,000 from 1 August 2001 to the date of acquisition and a profit after tax of £219,000 in the previous financial year.

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

Redland Hygiene Limited	Book value £'000	Alignment of accounting policies £'000	Fair value £'000
Intangible fixed assets	321	(321)	–
Tangible fixed assets	85	(62)	23
Stocks	238	–	238
Debtors	954	–	954
Total assets	1,598	(383)	1,215
Bank overdraft	(205)	–	(205)
Bank loan	(233)	–	(233)
Creditors	(653)	(33)	(686)
Net assets/(liabilities)	507	(416)	91
Purchased goodwill			2,178
Consideration			2,269
Satisfied by			
Cash			1,673
Loan notes			520
Acquisition expenses			76
			2,269

Redland Hygiene Limited made a profit after tax of £24,000 from 1 January 2002 to the date of acquisition and a profit after tax of £81,000 in the previous financial year.

Fair value adjustments comprise adoption of Group policies in respect of fixed asset recognition, depreciation, accounting for deferred income and writing off acquired goodwill.

28 Acquisitions (continued)

Britannia Hygiene plc	**Book value £'000**	**Alignment of accounting policies £'000**	**Fair value £'000**
Tangible fixed assets	23	(21)	2
Stocks	19	(15)	4
Debtors	144	(34)	110
Cash	118	–	118
Total assets	304	(70)	234
Creditors	(65)	(478)	(543)
Net assets/(liabilities)	239	(548)	(309)
Purchased goodwill			4,078
Consideration			3,769
Satisfied by			
Cash			3,688
Acquisition expenses			81
			3,769

Britannia Hygiene plc made a loss after tax of £128,000 from 1 September 2002 to the date of acquisition and a profit after tax of £79,000 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 and provision against irrecoverable debtor balances.

Other acquisitions	**Book value £'000**	**Alignment of accounting policies £'000**	**Fair value £'000**
Tangible fixed assets	780	(587)	193
Stocks	182	(56)	126
Debtors	635	66	701
Cash	333	–	333
Total assets	1,930	(577)	1,353
Bank loan	(25)	–	(25)
Other creditors	(1,274)	(263)	(1,537)
Net assets/(liabilities)	631	(840)	(209)
Purchased goodwill			8,177
Consideration			7,968
Satisfied by			
Cash			6,689
Deferred cash consideration			343
Loan notes			593
Acquisition expenses			343
			7,968

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

Notes to the financial statements continued

28 Acquisitions (continued)
An analysis of cash and cash equivalents in respect of each acquisition is provided below:

	Teacrate Rentals Limited £'000	The Well Corporation Limited £'000	Hygeni-Care Limited £'000	Redland Hygiene Limited £'000	Britannia Hygiene plc £'000	Others £'000	Total £'000
Cash consideration (including acquisition expenses)	14,072	5,397	3,172	1,749	3,769	7,032	35,191
Cash at bank and in hand acquired	423	68	190	–	118	333	1,132
Bank overdraft acquired	–	–	–	(205)	–	–	(205)
Net outflow of cash and cash equivalents	**14,495**	**5,465**	**3,362**	**1,544**	**3,887**	**7,365**	**36,118**

In addition to the above, £11,630,000 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.

29 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:

	2003 £'000	2002 £'000
Land and buildings		
Operating leases which expire:		
Within one year	**145**	14
Within two to five years	**447**	289
After five years	**702**	491
	1,294	794
Other		
Operating leases which expire:		
Within one year	**382**	296
Within two to five years	**3,567**	3,751
After five years	**–**	113
	3,949	4,160

30 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 year.

31 Post balance sheet events
The Group has made seven acquisitions since the year-end, purchasing the entire issued share capital of Airstream Services Limited for cash consideration of £25.0m, the entire issued share capital of Alphasan Limited for cash consideration of £2.4m, the entire issued share capital of Specialised Waste Services Limited for cash consideration of £1.1m and four smaller companies and businesses for cash consideration of £0.3m. These acquisitions were partly funded by borrowing an additional £20.0m through our existing facilities (as described in note 17).

Five-year summary

	Year ended 31 March 1999 £'000	Year ended 31 March 2000 £'000	Year ended 31 March 2001 £'000	Year ended 31 March 2002 £'000	**Year ended 31 March 2003 £'000**
Turnover	56,779	77,874	97,068	115,067	**139,902**
Operating profit	11,780	15,397	26,744	33,567	**41,216**
Net interest payable	(1,979)	(20,510)	(30,386)	(14,942)	**(5,182)**
Loss on disposal of subsidiary undertakings	–	–	–	(969)	**-**
Profit/(Loss) on ordinary activities before taxation	9,801	(5,113)	(3,642)	17,656	**36,034**
Taxation on profit/(loss) on ordinary activities	(2,644)	(45)	300	787	**(10,632)**
Profit/(Loss) on ordinary activities after taxation	7,157	(5,158)	(3,342)	18,443	**25,402**
Equity minority interests	43	(1)	–	–	**-**
Profit/(Loss) for the year	7,200	(5,159)	(3,342)	18,443	**25,402**
Dividends	–	–	–	(2,172)	**(2,844)**
Retained profit/(loss) for the year	7,200	(5,159)	(3,342)	16,271	**22,558**
Basic earnings/(loss) per share	1.63p	(1.18p)	(0.75p)	4.18p	**4.91p**

Basic earnings/(loss) per share has been calculated as if the weighted average number of shares in issue for the year ended 31 March 2002 had been effective in each of the three 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 Company's Registered Office, Western Industrial Estate, Caerphilly CF83 1XH on Friday, 11 July 2003 at 1:00 pm for the following purposes:

Ordinary business

Resolution Number 1
To receive and adopt the Report of the Directors and the Financial statements for the year ended 31 March 2003.

Resolution Number 2
To approve the Directors' Remuneration report for the year ended 31 March 2003.

Resolution Number 3
To approve the declaration of a final dividend for the year ended 31 March 2003 of 0.38p per ordinary share, to be paid on 20 August 2003 to all shareholders registered at the close of business on 25 July 2003.

Resolution Number 4
To re-elect Mr J F Skidmore as a Director.

Resolution Number 5
To reappoint PricewaterhouseCoopers LLP as auditors of the Company (having previously been appointed by the Board to fill the casual vacancy arising by reason of the resignation of PricewaterhouseCoopers), to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to determine their remuneration.

Special business

Resolution Number 6
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 £17,062,564 (being 33% of the Company's issued ordinary share capital at 31 March 2003). Such authority shall expire on 10 July 2008 and all previous authorities under Section 80 of the Companies Act 1985 be revoked.

Resolution Number 7
Special resolution
Subject to the passing of the previous resolution 6 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 6, 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 £2,585,237 (being 5% of the Company's issued ordinary share capital at 31 March 2003).

This power shall expire on 10 July 2008 and all previous authorities under Section 95 of the Companies Act 1985 be revoked.

Resolution Number 8
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 51,704,739 (being 10% of the Company's ordinary shares in issue at 31 March 2003);
(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

John Skidmore
Company Secretary
11 June 2003

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 valid, forms of proxy must be deposited with Computershare Investor Services, P O Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 7NH not less than 48 hours before the time appointed for 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. Only those members registered in the register of members at close of business on 9 July 2003 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*
John Fletcher Skidmore *Finance Director*
John Murray Allan *Non-executive director*
Jan Gunnar Astrand *Non-executive director*

Company secretary
John Fletcher Skidmore

Registered and head office
Western Industrial Estate
Caerphilly CF83 1XH

Stockbroker
Merrill Lynch International
20 Farringdon Road
London EC1M 3NH

Solicitors
Morgan Cole
Bradley Court
Park Place
Cardiff CF10 3DP

Registered Auditors
PricewaterhouseCoopers LLP
One Kingsway
Cardiff CF10 3PW

Principal Bankers
Bank of Scotland plc
PO Box 39900
Bishopsgate Exchange
Level 7, 155 Bishopsgate
London EC2M 3YB

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

Financial calendar and web site

Interim results published	*December 2003*
Dividend payment dates:	
Final	*20 August 2003*
Interim	January 2004 (provisional)
Web site	*www.phs.co.uk*

Designed and produced by Radley Yeldar

PHS Group plc

Western Industrial Estate
Caerphilly
South Wales CF83 1XH
Tel 029 2085 1000
Fax 029 2086 3288
www.phs.co.uk

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