

For the
38 weeks
ended
31 December
2005

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 **Inspicio**

www.inspiciopl.com



Directors and Advisors

Directors

Keith Tozzi (Non Executive Chairman)

Mark Jonathan Silver (Chief Executive Officer)

Mark Irvine John Watts (Non Executive Director)

John Christopher Slack (Non Executive Director)

Joint Secretaries and Registered Office

Susan Fadil, FCIS and Robert Hillhouse, FCIS

20 Blackfriars Lane, London EC4V 6HD

Nominated Advisor

Bridgewell Limited

Old Change House, 128 Queen Victoria Street, London EC4V 4BJ

Stockbroker

Bridgewell Limited

Old Change House, 128 Queen Victoria Street, London EC4V 4BJ

Auditors

PricewaterhouseCoopers LLP

Abacus House, Castle Park, Cambridge CB3 0AN

Solicitors to the Company

Mayer Brown Rowe & Maw

11 Pilgrim Street, London EC4V 6RW

Jones Day

21 Tudor Street, London EC4Y 0DJ

Principal Bankers

HSBC Bank plc

26 Broad Street, Reading, Berkshire RG1 2BU

Registrars and Transfer Office

Capita Registrars

7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE

Registered Company Number

05414237

www.inspiciopl.com

We have had a rewarding first 38 weeks at Inspicio and are pleased to have delivered the acquisition of Inspectorate from the British Standards Institution ('BSI') during October 2005. We know the business well and, in conjunction with the management team of Inspectorate, have made good progress in making the changes necessary to ensure the successful development of the company. Inspectorate offers us a strategic global platform to add further value to shareholders through earnings enhancing complementary acquisitions.

Inspectorate has been restructured over the past year to ensure it is in the best shape for future growth. We have made substantial reductions in staff costs by reducing the number of employees by 324 in underperforming areas. We have introduced a more decentralised management structure and have closed four loss making offices.

In spite of the reduction in numbers employed in certain geographic regions, the business of Inspectorate has grown over the last year, with expansion in India, Middle East, South America and Eastern Europe, and we have increased our numbers of inspectors and laboratory staff in such developing areas. Employee numbers now total 4,098.

We are continuing to search for new, complementary acquisitions in the inspection and testing market. Since 31 December 2005, we have acquired 100% of the shares of Environmental Services Group Limited as well as 51% of the shares in Acacus Inspection International Limited, our agent in Libya, and the remaining shares in our Hungarian company previously held by our minority partner. Our markets continue to exhibit strong growth and the underlying dynamics remain favourable. Trading in the first quarter was ahead of our expectations.

We have now appointed Richard McBride as the Group Finance Director and I look forward to welcoming him when he joins the Board in June.

It has been a busy period for all our people and I would like to thank everyone involved in the business for their professionalism and hard work.

Annual General Meeting 2006

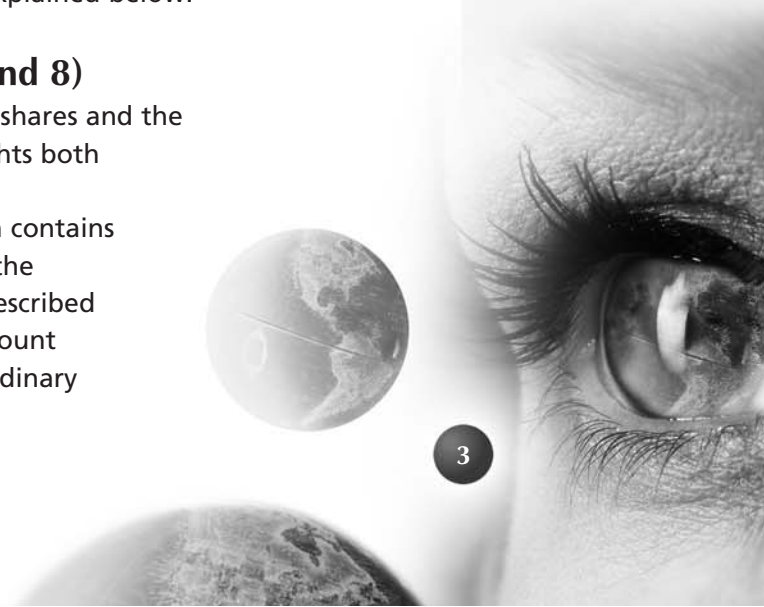
The Annual General Meeting ("AGM") of the Company is to be held on 21 June 2006. The Notice convening the AGM is set out on pages 52-54 at the end of this report.

In addition to the routine business of the AGM, there are a number of items of special business to be transacted, as summarised and explained below:

1. Issues of Share Capital (Resolutions 7 and 8)

The existing general authority of the Directors to allot shares and the current disapplication of the statutory pre-emption rights both expire at the conclusion of the 2006 AGM.

Article 8.2.1 of the Company's Articles of Association contains a general authority for the Directors to allot shares in the Company for a period (not exceeding 5 years) (the "prescribed period") and up to a maximum aggregate nominal amount (the "Section 80 amount") approved by a Special or Ordinary





Chairman's Statement (continued)

Resolution of the Company. In addition Article 8.2.2 empowers the Directors, during the prescribed period, to allot shares for cash in connection with a rights issue and also to allot shares for cash in any other circumstances up to a maximum aggregate nominal amount approved by a Special Resolution of the Company (the "Section 89 amount").

Ordinary Resolution 7 provides for the Section 80 amount to be an aggregate nominal amount of £293,750 representing approximately 5 per cent. of the Company's nominal issued share capital at 17 May 2006 (the latest practicable date before the printing of this document).

Special Resolution 8 provides for the Section 89 amount to be an aggregate nominal amount of £293,750 representing 5 per cent. of the Company's nominal issued share capital at the date referred to above. This limit conforms with the pre-emption guidelines issued by bodies representing institutional investors.

The Directors have no current intention of using the authority given in order to allot further shares. However, the authority will provide the Company with greater flexibility when raising additional resources in order to implement its strategy of pursuing complementary acquisitions in the inspection and testing market.

The prescribed period for which these powers and authorities are given will expire at the conclusion of the AGM to be held next year (or, if earlier, fifteen months from the date fixed for this year's AGM) when the Directors propose to seek a renewal of these authorities.

2. Purchase of own shares (Resolution 9)

The Directors consider that it would be beneficial to the Company if, in certain circumstances, the Company had the power to purchase its own ordinary shares of 10p each ("Ordinary Shares").

At the present time, the Directors have no wish to exercise the power to purchase any of the issued Ordinary Shares of the Company. However, they consider it is appropriate to have the flexibility to do so. Accordingly, they recommend that power in certain circumstances to buy in Ordinary Shares up to a maximum prescribed limit be granted for a limited period.

The Directors will only implement such purchases if they are satisfied, after careful consideration, that these are in the best interests of the Company and shareholders generally and would result in an increase in expected earnings per share. Furthermore, account will be taken of the overall financial implications for the Company.

If such purchases were made, the Company would be able to do either or a combination of the following:

- cancel the purchased Ordinary Shares so reducing the total number of Ordinary Shares in issue; or
- where the shares were purchased out of distributable profits, subject to certain limitations, hold them as treasury shares.

Treasury shares themselves may be cancelled, sold for cash or transferred for the purposes of the Company's employee share schemes. The statutory pre-emption rights apply to a sale of treasury shares for cash and the disapplication of the

statutory pre-emption rights in Resolution 8 includes, within the Section 89 amount, any sales of treasury shares for cash which may occur. Finally, if such purchases were made, to the extent the purchased shares are held as treasury shares, any increase in earnings per share would only be temporary, until the shares in question were either cancelled or sold or transferred out of treasury.

Resolution 9, which will be proposed as a Special Resolution, authorises the Directors to purchase up to an aggregate nominal amount of £293,750, being 5 per cent. of the issued share capital of the Company as at 17 May 2006 (the latest practicable date prior to printing of this document), and provides that the maximum price per Ordinary Share payable on any exercise of the authority shall not be more than 5 per cent. above the average of the middle market quotations for the Ordinary Shares as derived from the Daily Official List of the London Stock Exchange for the 5 business days prior to making any purchase. The minimum price payable shall be 10p per Ordinary Share, being the nominal value of an Ordinary Share. For this purpose both the maximum and minimum prices permitted to be paid are exclusive of expenses.

The authority will expire at the end of the next Annual General Meeting of the Company to be held after the date of the passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier. It is envisaged that the Directors will seek renewal of the authority annually.

Keith Tozzi
Non Executive Chairman

17 May 2006

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Chief Executive's Review

Acquisition of Inspectorate

Inspicio was admitted to AIM on 29 April 2005, with a view to acquiring and managing companies in the UK and international inspection, testing and performance conformity markets.

The Company acquired the Inspectorate Group for £52.0 million in October 2005, its first transaction. A further £2.1 million of deferred consideration, in respect of cash remaining in the Inspectorate group, was settled in January 2006. Inspectorate is one of only five global providers in the inspection, testing and certification industry and the acquisition criteria satisfied the Company's requirements, in having both a substantial geographical coverage and a large well-established business. It also has a strong international brand, a truly global network of inspection and testing services and a long-standing, blue-chip client base generating repeat business.

Inspectorate provides an excellent platform for expansion, both organically and by further acquisition.

Turnaround

Following the acquisition, our stated target is to turn around the company to achieve an 8% operating margin (EBITA), similar to that which existed in 1999, when the current management of Inspicio had responsibility for the business.

The initial challenge has been to find the right balance between taking out unnecessary costs whilst remaining sufficiently well invested to improve operating margins, and hence reach the target 8% operating margin for Inspicio in the second half of 2007.

Group structure

Critical to our strategy was the necessity to make management changes within Inspectorate. We moved rapidly to bring back Jeff Luesley as Inspectorate's Managing Director and complement the otherwise excellent team within the organisation, a move which has been welcomed by the senior management. Jeff has extensive experience in the inspection and testing sector and from 1992 until 2000 was CEO of Inspectorate. Initially operating the business under Swiss control, he oversaw the management buy-out and subsequent sale of the business to BSI, where he became a Director. During his tenure, Jeff turned around Inspectorate from a loss, to a business generating £6.6 million of operating profit.

We have also taken significant steps to decentralise the business, empowering the operating divisions, whilst ensuring that the right operational controls are in place. This decentralisation is driving the business back to the entrepreneurial culture that we saw in the late 1990s, and this is already having a positive impact on the results.

In addition to the cultural changes set in place, we have commenced the process of tidying up our ownership structure, and expanding the network of offices and locations. We have purchased the minority interest in our Hungarian business, 51% of our Libyan agent and continue discussions to extend the network into territories where we do not have a presence today.

Business growth

Whilst the initial focus of our reorganisation has been on the cost base, growing the underlying business is critical to improving the overall operating margin. Considerable effort has been made since October to both grow the client base and increase the amount of spend per customer.

Growing customer confidence in the reinvigorated Metals and Minerals team is resulting in an expanding share of business from key players in the global market. In this respect, Jeff Luesley has helped to foster better relationships through his extensive network of industry contacts.

Cash management

Following a period of substantial capital expenditure by the previous owner of Inspectorate, we have put in place a capital expenditure budget for 2006 which is anticipated to be close to the depreciation charge, before an additional and necessary £1 million investment in IT systems. In addition, we are focused on improving debtor days and working capital flexibility.

Cost base

In 2005, the Inspectorate headcount was reduced by 324, reducing costs by at least £4 million per year. Within this, we have de-layered management, making the business structure more efficient and the decision making process quicker. At the same time, we are investing in our expanding businesses such as Eastern Europe, India and China, where we have recruited staff to accommodate growth in these regions. Staffing numbers were 4,098 at the end of the year.

Since October we have closed four loss making offices which had little realistic prospect of turning around in the medium term.

Tax planning

At the time of the Inspectorate transaction we stated that we would deliver improved tax planning via a programme that would be completed by the second half of 2007. In 2005, Inspectorate both made a loss before tax and incurred a tax charge. Our stated aim at the time of the acquisition was a 35% tax rate during the second half of 2007.

We have made significant progress towards these goals and have, at the same time, simplified our corporate structure.

IT

We have commenced the harmonisation of our IT systems across the business and are now six months into an 18 month plan, with some £1 million of IT spend expected for 2006. Our new systems will allow us to streamline accounting processes and will lead to efficiencies within the laboratories, ultimately delivering even better customer service.





Chief Executive's Review (continued)

Operational review

Inspectorate operations

Inspectorate is currently managed on a geographic basis and this is reflected in the commentary below. All revenues are based on the pro forma unaudited information for Inspectorate for the full year ended 31 December 2005.

Americas

The Americas generated £53.8 million (49.2%) of Inspectorate's revenues in the 2005 calendar year. The business performed well with the Oil and Petroleum business producing a particularly satisfactory result.

There was some disruption as a result of Hurricanes Katrina and Rita. In particular, the Fort Lauderdale and New Orleans operations are not expected to be fully operational until the second quarter of 2006.

Elsewhere, a new Metals and Minerals laboratory has opened in Reno, which will double our capacity. Our Food and Agro-commodities business in South America is progressing well and we are aiming for it to be profitable, for the first time, in 2006.

Asia

Our Asian business generated £7.5 million of Inspectorate's revenues in 2005. It has been an encouraging period for the region, particularly in Singapore and China. Approval has just been given to the Singapore operation to undertake a major upgrade in its laboratory to cope with increased demand. This will double the capacity of the business.

Our Chinese business, co-owned with our supportive partner, CIQ, has had a strong year of growth, expanding by 15.1% in 2005, and is expected to have another good year in 2006, driven by growth in the Chinese economy.

UK Metals and Minerals

The UK Metals and Minerals business generated £7.0 million revenues in calendar year 2005. This business, based at Witham, UK, has been subject to substantial change since Inspicio's ownership, as new management within this division has tackled with renewed focus under-performance within the business. 2006 has started encouragingly and we anticipate a much improved result as we take steps to return it to its former strength.

Eastern Europe

In Eastern Europe, including Russia and the Ukraine, performance has been encouraging during 2005, driven in part by the expansion of the Russian oil majors outside their domestic markets and in part by our ability to gain market share from competitors. The Eastern European businesses generated 18.7 per cent of Inspectorate's global revenues.

In the Caspian region, we performed poorly in 2005 as a result of the high fixed cost base we inherited at the time of the acquisition. We have now cut costs significantly without impacting upon the services we can provide, and have put in place new managers to turn around the business.

EMEA (including India)

EMEA generated revenues of £23.9 million in 2005, representing some 21.8% of group turnover. Within the region, performance was mixed. The Middle East and Indian businesses performed well, driven by expansion of the Indian economy and the investment in refinery infrastructure in the Middle East. We are currently building a further laboratory in Saudi Arabia to meet existing demand.

Western Europe is a mature market, particularly in Rotterdam where we are still facing small losses, (albeit less than 12 months ago). However, we believe that the management team we have in place is best placed to take the business forward. Nonetheless, other areas which are performing well include Spain, Greece and Sweden.

Financial results

Overview – Inspicio Group

Turnover for the period 29 April to 31 December 2005 (incorporating Inspectorate from 14 October) was £26.2 million. Earnings before exceptional items (£3.8 million), interest (£0.2 million), tax credit (£nil), depreciation (£1.0 million) and amortisation (£0.4 million) (EBITDA) were £0.9 million and the pre-exceptional, pre-goodwill amortisation operating loss was £(0.1) million. We incurred reorganisation costs of £3.8 million.

During the period 55.0 million shares were issued at a price of 100p per share. As a result, the weighted average loss per share for the period was (25.4)p. Adjusted loss per share (based on profit after taxation excluding goodwill amortisation) was (23.3)p.

Goodwill on the acquisition of Inspectorate amounted to £34.9 million. Net assets at 31 December 2005 were £50.5 million.

Pro forma unaudited information for Inspectorate for the year to 31 December 2005

Pro forma revenues improved by 11.1% from £98.4 million to £109.3 million between calendar year 2004 and 2005. The pro forma operating loss, before fair value adjustments and exceptionals, reduced from £2.0 million to £0.6 million. The improvement in revenues arose in the North American and Russian businesses. Losses continued to be incurred in the Caspian region, Holland, Brazil and the Food Safety business in South America.

Traditionally the second half of Inspectorate's calendar year is more significant in terms of operating profit as a result of the stockpiling of oil during the autumn months for the following winter. 2005 saw this trend continue, although partly disrupted by the hurricanes, and we expect this to continue into 2006 and beyond.

We have estimated the impact of the hurricanes on the business in 2005 to be a loss of some £0.4 million in operating profit.





Chief Executive's Review (continued)

Cash and financing

Net borrowings at 31 December 2005 were £5.4 million, consisting of bank loans of £7.0 million and amounts due to BSI for the purchase of the Inspectorate group of £2.2 million, less cash within the Group (net of overdrafts) of £3.8 million.

55.0 million shares were issued during the year, 3.0 million for the initial fundraising of Inspicio plc and 52.0 million for the acquisition of Inspectorate. In addition, 1.0 million warrants were granted at an exercise price of 100p and approximately 4.9 million options were granted, 3.5 million at an exercise price of 100p and 1.4 million at an exercise price of 111.5p.

Inspectorate is a largely US\$ denominated business. As a result we have hedging in place covering the translation of our anticipated US\$ profitability for 2006. In addition, the Group has an interest rate cap on its debt, a facility which runs through to October 2008.

IFRS

As Inspicio plc is quoted on AIM, it is not required to adopt International Financial Reporting Standards ('IFRS') until its 2007 year end. The financial statements have therefore been prepared under UK GAAP. The Group has, however, adopted early certain recent UK accounting standards which form part of the ongoing process of convergence between UK GAAP and IFRS.

Dividend

As outlined in the Admission Document for the acquisition of Inspectorate, the Board will not be recommending the payment of a dividend for the period ended 31 December 2005.

Strategy and acquisitions

At the time of Inspicio's admission to AIM on 29 April 2005, we set out a strategy of acquiring and managing companies and businesses in the UK and international inspection, testing and performance conformity markets. We have delivered upon that strategy through the acquisition of Inspectorate, a global platform for future organic and acquisitive growth.

The Board continues to look for EPS enhancing acquisitions, taking advantage of the long term consolidation opportunities in this fragmented yet fast growing market.

Since 31 December 2005, we have also acquired 100% of the share capital of Environmental Services Group Limited.

Outlook

Following the acquisition of Inspectorate, the business has yielded no surprises and the turnaround is on track. The sector continues to grow and we are feeling the benefit of that market growth through a very satisfactory start to the current financial year. For the first quarter of 2006 the Inspicio Group is profitable and above budget (EBITA), compared to a £1.5 million operating loss (EBITA) in the first quarter of 2005 for the Inspectorate Group alone.

In addition, our strategy of growth through further acquisition has already begun and, since 31 December 2005, we have acquired 100% of Environmental Services Group Limited as well as 51% of Acacus Inspection international Limited and the remaining shares in our Hungarian subsidiary.

Mark Silver
Chief Executive

17 May 2006

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Directors' Report

The Directors present their report and the Group's financial statements for the 38 weeks ended on 31 December 2005.

Principal activities and business review

The company was incorporated on 5 April 2005.

The principal activity of the Group during the year was that of the provision of inspection and testing of commodities for the purpose of international trade.

The Group's results for the year and financial position at the balance sheet date are shown in the attached financial statements.

A review of the year is included in the Chairman's Statement and Chief Executive's Review.

Key performance indicators

The initial KPI was the acquisition of an inspection and testing business. This was achieved on 13 October 2005.

Following this, the stated aim is to achieve a 4% operating margin for 2006, an 8% operating margin during the second half of 2007 and an 8% operating margin for 2008. In the 38 weeks to 31 December 2005, the operating margin was -1.8%.

The Directors are currently working with the business to establish suitable key performance indicators, to ensure that the stated aims are achieved.

Dividends

The Directors have not recommended a dividend for the period.

Transfers to reserves

The loss for the year amounting to £4,549,000 will be taken to the profit and loss account and carried forward to next year.

Directors

The Directors who served in office during the year and their interests in the Company's shares on 31 December 2005 are stated below.

Ordinary shares held at: 31 December 2005	Number	%
Mark Jonathan Silver	187,500	0.319
Keith Tozzi	118,395	0.201
Mark Irvine John Watts	10,000	0.017
John Christopher Slack	15,000	0.026

The Directors' interests in share options are disclosed in note 30 to the financial statements.

Mark Silver and Keith Tozzi were appointed Directors on 5 April 2005. Mark Watts and Chris Slack were appointed Directors on 12 April 2005.

Since 31 December 2005, the Group has appointed a Finance Director, Richard McBride, who will join the board in June 2006.

Significant individual shareholdings

The company has been notified of the following holdings that are 3% or more of the company's ordinary share capital, at the date of this report:

Ordinary shares held:	Number	%
Cycladic Capital Management	6,506,500	11.07
J O Hambro Capital Management	5,540,000	9.43
AXA Framlington Investment Management	4,513,575	7.68
S G Asset Management	4,122,310	7.02
F & C Asset Management	4,073,910	6.93
Credit Suisse Asset Management	3,166,781	5.39
Goldman Sachs Asset Management	2,803,404	4.77
Henderson Global Investors	2,510,211	4.27
Artemis Investment Management	2,446,000	4.16
GLG Partners	2,290,320	3.90
ZA Capital	1,930,000	3.29

Directors Biographies

Mark Jonathan Silver (CEO)

Mark has extensive Board experience in both CEO and Finance Director roles. From 1987-95 he was Deputy Group Finance Director of the £3 billion European media buying/advertising group, Aegis Group plc. He was responsible for the planning, budgeting and forecasting process, treasury management and bank relationships. In 1995 he joined Pearson Professional Ltd as Group Finance Director of Pearson plc's £200 million professional and electronic publishing division where he negotiated and integrated a number of acquisitions in the US and the UK and disposed of non-core businesses. From 1998-2000 he was Group Finance Director of BSI and worked closely with Keith Tozzi in growing the business by acquisition to become a global player in the testing, inspection and management systems sectors. Mark joined Articon Integralis AG (Europe's largest IT security integrator – turnover £150 million) in 2001 as Finance Director and became CEO in 2002. He led a turnaround of the business by disposing of some existing business streams and acquiring new ones, reducing the cost base by 35 per cent and refocusing on service delivery options. Mark left Articon Integralis in 2005 and joined the Inspicio board.

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Directors' Report (continued)

Keith Tozzi (Non Executive Chairman)

Keith has wide experience at Board level in creating and developing successful businesses. He was Group Technical Director (one of three Executive Directors) of Southern Water plc from 1992-96 where he had responsibility for the operational performance of the water company as well as the performance of seven other subsidiaries including a testing business with four major laboratories across the UK. From 1996-2000 he was Chief Executive of BSI where he grew revenues to over £200 million and acquired major inspection and testing businesses to build a global business operating in 96 countries. From 2000-03 he was Group Chief Executive of Swan Group plc and led an MBO (backed by WestLB) where he grew a subsidiary business, Eclipse Scientific Limited, to become the largest food testing company in the UK. Keith is a Non Executive Director of two privately owned technology companies and is currently CEO of an AIM quoted business, Concateno plc.

Mark Irvine John Watts (Non Executive)

Mark is a Director of Marwyn and its subsidiary companies. Mark has extensive corporate finance experience including recently advising the management of Augean plc on its £106 million acquisition of two hazardous waste businesses in the UK, the management of Talarius plc on its £39 million acquisition of RAL Holdings Limited and £10.65 million acquisitions of Leisure Promotions Limited and In To Save Limited, and the management of Zetar plc on its £32 million acquisition of a UK chocolate manufacturer, and their subsequent related admission to trading on AIM. Mark is Non Executive Director of Talarius plc and Zetar plc.

John Christopher Slack (Non Executive)

Chris has wide experience as a Managing Director and AIM board director, successfully enhancing three businesses by organic growth and acquisition over the last 20 years. At Blue Circle he established EWS Ltd as a specialist waste water treatment contractor from a standing start to revenues of £13 million, following which he joined Southern Water plc in 1994, to run Southern Science Ltd. Working with Keith, he converted this £8 million in house testing business into a fully commercial operation doubling profits in 18 months, and gaining a wide experience in laboratory activities. Following the acquisition of Southern Water, he worked on integration with ScottishPower, before moving in 1999 to join the board of AIM listed Weeks Group. Chris focused the network of construction materials laboratories to create Weeks Laboratories Ltd, the largest and most successful player in the market, doubling profits after the first year. After the acquisition in 2003 of Weeks by Bureau Veritas, Chris stayed for a year as Managing Director of Bureau Veritas Laboratories to further grow the business by acquisition and successfully manage the integration process.

Group Policy on Payment of Creditors

It is the Group's policy to agree to the terms of payment with suppliers when entering into each transaction, and to abide by them. The creditor payment period at 31 December 2005 was 36.4 days. The Company's creditor payment period at 31 December 2005 was nil.

Research and Development

The Group does not undertake material research and development.

Going concern

The Directors have a reasonable expectation that the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in the accounts.

Post balance sheet events

These are discussed in note 31 to the financial statement.

Financial risk management

This is discussed in note 22 to the financial statements.

Employees

Inspicio seeks to involve its employees in its corporate objectives, plans and performance and in other relevant matters of interest to employees through various communication methods, including regular employee meetings and an employee newsletter. The Directors consider there to be a good relationship between employees and management. The Group is an equal opportunities employer and does not discriminate in the recruitment and promotion of staff, including applicants who are disabled. If an employee becomes disabled it is the policy, wherever practicable, to provide continued employment.



Directors' Report (continued)

Statement of Directors' Responsibilities for the Annual Report

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors have confirmed that there is no relevant audit information of which the Company's auditors are unaware; and that they have taken all the steps (such as making enquiries of other Directors and the auditors and any other steps required by the Director's duty to exercise due care, skill and diligence) that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the Group's website. The Group notes that UK legislation governing the preparation and dissemination of financial information may differ from that in other jurisdictions.

Auditors

For the first reporting period, the Directors appointed PricewaterhouseCoopers LLP as auditors.

PricewaterhouseCoopers LLP, are willing to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Signed by order of the Board

Robert Hillhouse FCIS
Company Secretary

Approved by the Directors
on 17 May 2006

Corporate Governance Statement



As an AIM quoted company, Inspicio plc is not required to comply with the Combined Code prepared by the Committee on Corporate Governance. However the company has regard to the requirements of the Code and its activities in these areas are described below.

Directors

The Board currently comprises the Non Executive Chairman, the Chief Executive, and two Non Executive Directors. The Directors have split the roles of Chairman and Chief Executive, but due to the size of the Company, the Directors do not believe that additional Non Executive Directors would be beneficial. The Directors will however review the position on a regular basis.

The composition of the Board is reviewed regularly. Appropriate training, briefings, and induction are available to all Directors on appointment and subsequently as necessary, taking into account existing qualifications and experience.

Executive Directors' normal retirement age is 60 and Non Executive Directors' normal retirement age is 65. One third of all Directors are subject to annual reappointment by shareholders.

During 2005, the Board met 10 times. At these meetings the Board review and approve the Group's strategy and financial plans for the coming year. Each Director is provided with sufficient information to enable them to consider matters in good time for meetings and enable them to discharge their duties properly. There is a formal schedule of matters reserved for the Board's decision.

All Directors have access to the advice and services of the Company Secretary, who is also responsible for ensuring that Board procedures are followed.

Board Committees

The Company has established a number of committees, details of which are set out below.

Audit Committee

The Audit Committee members comprise a Non Executive Director (Chris Slack), and the Chairman of the Company, and meets at least twice a year. The Chief Executive Officer and the Company's external auditors attend the meetings. The Audit Committee considers the adequacy and effectiveness of the risk management and control systems of the Group. It reviews the scope and results of the external audit, its cost effectiveness and the objectivity of the auditors. It also reviews, prior to publication, the interims, preliminary announcement, the annual financial statements and the other information included in the full annual report.

Remuneration Committee

The Remuneration Committee consists of the Chairman and a Non Executive Director (Mark Watts). It is planned that it will meet at least twice a year to review and advise upon the remuneration and benefits packages of the executive Directors and their direct reports. The remuneration of the Chairman and Non Executive Directors is decided upon by the full Board.

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Corporate Governance Statement (continued)

Nominations Committee

Due to the size of the Board, the Directors do not consider there to be any need for a nominations committee. Issues that would normally be dealt with by a nominations committee are handled by the full Board. The Board will review the need for a nominations committee on a regular basis.

Internal Controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness whilst the role of management is to implement Board policies on risk management and control. It should be recognised that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place since the acquisition of the Inspectorate group and up to the date of approval of this annual report. This process has been reviewed by the Directors and accords with the internal control guidance prepared for Directors by the Turnbull Committee.

The Group plans to further develop the risk management process, embedded in normal management, and governance processes. As part of the annual strategic planning and budgeting process, each business unit will identify its significant risks, the probability of those risks occurring, their potential impact and the plans for managing and mitigating each of those risks. Each business unit will carry out a risk review including the role of insurance in risk management. These plans will be reviewed by the Board as part of the strategic planning process. The plans will be discussed, updated and reviewed during the course of the year, or when any control issues are identified, including matters arising from the external audit. As a part of the monthly board meeting, risks will be highlighted and appropriate quantitative estimates as to size and probability will be reported to the Board.

The Group operates a series of controls to meet its needs. These controls include, but are not limited to, the annual strategic planning and budgeting process, a clearly defined organisational structure with authorisation limits, reviews by senior management of monthly financial and operating information including comparisons with budgets, monthly treasury and cash flow reports and forecasts to the main Board with rules preventing speculation in derivatives.

The Audit Committee receives reports from management and external audit concerning the system of internal control and any material control weaknesses. Significant risk issues are referred to the Board for consideration.

The Board obtains assurance directly from the Directors and appropriate senior management concerning compliance with the Group's risk management and control policies and procedures, before making this statement. The Board also considers issues included in reports received during the year, how the risks have changed during the year and reviews reports on internal controls from management and any issues identified by external auditors. The Directors plan to conduct an annual review of the effectiveness of the Company's system of internal controls and risk management.

The Board does not believe it is currently appropriate to establish a separate, independent internal audit function given the size of the Group.

Remuneration Report



The Remuneration Committee's principal function is to set remuneration of the Group's executive Directors to ensure they are fairly compensated for their contribution to the Company's performance.

Basic salaries are set to ensure high quality executive Directors are attracted and retained by the Company. They reflect the knowledge, skill and experience of each individual Director. Bonuses are non-pensionable and only payable if the Director's achievements are assessed as worthy of the award by the Remuneration Committee.

Executive Directors have rolling service contracts with notice periods of not more than 12 months in writing. Pension provision is made at a rate of 10% of basic salary for Executive Directors, which is payable directly into a nominated pension fund. Details of Directors' salaries are disclosed in note 3.

The Remuneration Committee is also responsible for ensuring the Group's option schemes are operated properly. Details of Directors' share options in the year ending 31 December 2005 are disclosed in note 30.

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Independent Auditors' Report

to the members of Inspicio plc

We have audited the Group and parent company financial statements (the "financial statements") of Inspicio plc for the period ended 31 December 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 into 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Review, the Directors' Report, the Corporate Governance Statement and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient

evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the parent Company's affairs as at 31 December 2005 and of the Group's loss and cash flows for the period then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Cambridge

17 May 2006

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Consolidated Profit and Loss Account

for the 38 weeks ended 31 December 2005

	Note	Pre-exceptionals £'000	Exceptional Items £'000	TOTAL £'000
Turnover (all acquisition)	1,2	26,236	-	26,236
Cost of sales (all acquisition)	1	(18,297)	-	(18,297)
Gross profit (all acquisition)		7,939	-	7,939
Administrative expenses				
Continuing operations		(680)	(991)	(1,671)
Acquisitions		(7,731)	(2,825)	(10,556)
		(8,411)	(3,816)	(12,227)
Operating loss				
Continuing		(680)	(991)	(1,671)
Acquisition		208	(2,825)	(2,617)
Loss on ordinary activities before interest and taxation		(472)	(3,816)	(4,288)
Interest receivable and similar income	4	182	-	182
Interest payable and similar charges	5	(391)	-	(391)
Loss on ordinary activities before taxation	6	(681)	(3,816)	(4,497)
Tax on loss on ordinary activities	7	8	-	8
Loss on ordinary activities after taxation		(673)	(3,816)	(4,489)
Equity minority interests		(60)	-	(60)
Loss for the period	9	(733)	(3,816)	(4,549)

Basic and diluted loss per ordinary share (25.4)p

The notes on pages 26 to 51 form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses

for the 38 weeks ended 31 December 2005

	Note	TOTAL £'000
Loss for the period	9	(4,549)
Foreign currency exchange gains offset in reserves		781
Total recognised losses for the period		(3,768)

Consolidated Balance Sheet

as at 31 December 2005



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	Note	2005 £'000
Fixed assets		
Intangible assets	10	35,023
Tangible assets	12	21,000
		56,023
Current assets		
Financial asset: Derivative financial instrument		108
Debtors	13	25,535
Cash at bank and in hand		4,140
		29,783
Creditors: Amounts falling due within one year	14	(22,673)
Financial liability: Derivative financial instrument		(110)
Net current assets		7,000
Total assets less current liabilities		63,023
Creditors: Amounts falling due after more than one year	15	(7,164)
Provisions for liabilities and charges	16	(5,346)
Net assets		50,513
Capital and Reserves		
Called up share capital	27	5,500
Share premium account	29	46,321
Profit and loss account	29	(4,159)
Other reserves	29	781
Equity shareholders' funds	28	48,443
Minority interest		2,070
Capital employed		50,513

These financial statements were approved by the Board of Directors on 17 May 2006 and signed on their behalf.

M J Silver
Director

The notes on pages 26 to 51 form part of these financial statements.

Company Balance Sheet

as at 31 December 2005

	Note	2005 £'000
Fixed assets		
Investments	11	345
Current assets		
Debtors – Amounts falling due after more than one year	13	51,641
Debtors – Amounts falling due within one year		15
Cash at bank and in hand		481
		52,137
Creditors: Amounts falling due within 1 year	14	(808)
Net current assets		51,329
Net assets		51,674
Capital and Reserves		
Called up share capital	27	5,500
Share premium account	29	46,321
Profit and loss account	29	(147)
Total shareholders' funds	28	51,674

These financial statements were approved by the Board of Directors on 17 May 2006 and signed on their behalf.

M J Silver
Director

The notes on pages 26 to 51 form part of these financial statements.

Consolidated Cash Flow



Statement for the 38 weeks ended 31 December 2005

	Note	2005 £'000
Net cash outflow from operating activities	19	(5,587)
Returns on investments and servicing of finance		
Interest received		149
Interest paid		(348)
Issue costs of bank loans		(173)
Net cash outflow from returns on investments and servicing of finance		(372)
Taxation		290
Capital expenditure		
Purchase of tangible fixed assets		(1,685)
Net cash outflow for capital expenditure		(1,685)
Acquisitions		
Purchase of subsidiary undertakings		(52,000)
Acquisition costs		(1,518)
Cash acquired with subsidiary undertakings	21	5,722
Net cash outflow for acquisitions		(47,796)
<hr/>		
Net cash outflow before use of liquid resources and financing		(55,150)
Financing		
Issue of ordinary share capital		55,000
Expenses of share issue		(3,019)
Issue of preference share capital		13
Redemption of preference shares		(13)
Capital element of finance lease repayments		(10)
Increase in borrowings		6,957
Net cash inflow from financing		58,928
<hr/>		
Increase in cash		3,778

Reconciliation of net cash flow to movement in net debt

	Note	2005 £'000
Increase in cash in the period		3,778
Borrowings acquired with subsidiary		(376)
Movement in borrowings		(6,774)
Change in funds resulting from cash flow		(3,372)
Non-cash items		(54)
Exchange adjustments		51
Movement in net debt in the period		(3,375)
Net funds at the beginning of the period	20	-
Net debt at the end of the period	20	(3,375)

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Notes to the Financial Statements

1. Accounting policies

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial instruments in accordance with the Companies Act 1985 and applicable accounting standards. The Group has chosen to adopt FRS 20, 'Share-based payments', FRS 23, 'The effects of changes in foreign exchange rates', FRS 24, 'Financial reporting in hyperinflationary economies', FRS 25, 'Financial instruments: Disclosure and presentation' and FRS 26, 'Financial instruments: Measurement' in these financial statements.

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

Consolidation

The group financial statements consolidate the financial statements of the parent company and all its subsidiary undertakings for the 38 weeks ended 31 December 2005. The acquisition method of accounting has been adopted for the acquisition of the Inspectorate group. All subsidiaries have been included in the Group financial statements using uniform accounting policies.

Turnover

Turnover, which excludes value added tax, represents the value of services supplied. Revenue arising from inspections is recognised when the inspection is complete.

Cost of sales

Cost of sales represents amounts paid for salaries, direct costs of running the laboratories around the group, and amounts due to external third parties for inspection services directly related to revenue.

Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Transactions denominated in currencies other than an entity's functional currency are translated into the functional currency at spot rates. Foreign exchange gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, which are held at the year-end, are taken to the profit and loss account.

The consolidated financial statements are presented in pounds sterling, which is the Group's presentation currency. Profits and losses of subsidiary undertakings are expressed in sterling at average exchange rates for the year. The balance sheets of overseas subsidiary undertakings are expressed in sterling at year end exchange rates. Exchange differences arising on the translation of overseas subsidiary undertakings are recorded as a movement in reserves, and are reported in the statement of total recognised gains and losses.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity

are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments – derivatives

The Group does not hold or issue derivative financial instruments for trading purposes. Derivatives used include forward currency contracts, currency options and barriers and interest rate caps.

Derivatives are initially accounted and measured at fair value on the date a derivative contract is entered into and subsequently measured at fair value. The gain or loss on re-measurement is taken to the profit and loss account under administrative expenses unless the derivative is associated with debt, in which case the gain or loss on re-measurement is taken to interest receivable or payable.

Debt instruments

Debt instruments are recorded at the proceeds received, net of direct issue costs. Issue costs are amortised over the period of the debt instrument.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Bad debt allowance

Trade debtors are first assessed individually for impairment, or collectively where the debtors are not individually significant. Where there is no objective evidence of impairment for an individual debtor, it is included in a group of debtors with similar credit risk characteristics and these are collectively assessed for impairment. Movements in the allowance for bad debts are recorded in the profit and loss account.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements that transfer to the Group 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 so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.





Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Tangible fixed assets

The cost of tangible fixed assets is the purchase cost, together with any incidental costs of acquisition. The Group does not capitalise finance costs.

Depreciation is calculated on a straight line basis so as to write off the cost of tangible fixed assets less their estimated residual values, over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings	2%
Laboratory equipment	10-33%
Computer equipment	33%

Freehold and leasehold improvements are depreciated over periods of 5 to 50 years. Freehold land is not depreciated. Short leasehold assets are depreciated over the period of the lease.

The Group selects these depreciation rates carefully and reviews them regularly, to take account of any changes in circumstances. The principal factors that the Group takes into account are the expected rate of technological developments and the intensity at which the assets are expected to be used.

Goodwill

Goodwill arising on acquisitions is capitalised and amortised over the period which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets, with a maximum period of 20 years. The Directors take into account the nature, age and stability of the industry in which the business operates.

Investments

Investments in subsidiaries are shown at cost less any provision for impairment.

Impairments of fixed assets

Fixed assets, including goodwill, are tested for impairment when a triggering event occurs by comparing the post-tax realisable value of the asset being tested with the value in use. Value in use is calculated on the basis of future cash flows, using a discount rate appropriate to the Group.

Provisions

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Where liabilities are expected to be discharged over a number of years, the provisions are discounted using an appropriate risk free rate.

In the case of claims against the group, provisions are made on a case by case basis, with an additional amount allocated for claims incurred but not reported.

Pension costs

Pension costs for the Group's money purchase pension schemes are charged to the profit and loss account when the contributions become payable to the scheme.

Consumables

Consumables are written off to cost of sales in the period in which they are purchased.

Deferred taxation

Deferred tax is fully provided in respect of timing differences that have originated but not reversed by the balance sheet date. These are based on average tax rates that are expected to apply at the time of the reversal, which will be the rates that have either been enacted, or substantially enacted, by the balance sheet date. No deferred tax is provided on permanent timing differences. Deferred tax assets are recognised to the extent that they are regarded as more likely than not to be recoverable. Deferred tax on unremitted earnings of foreign subsidiaries is only provided if dividends have been accrued as receivable or there is a binding agreement to distribute past earnings in the future. Deferred tax balances are not discounted.

Share-based payments

The Group issues equity-settled share-based payments to certain employees and advisers. In accordance with FRS 20, "Share-based payments", equity-settled share-based payments are measured at fair value at the date of grant. Fair value is normally measured by use of a binomial pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will eventually vest.

The share-based payments charge is included within administrative expenses as this is the category which includes the payroll costs of the relevant employees.

In the Company accounts, the granting of options to employees of subsidiaries and the granting of warrants for services performed in subsidiaries are deemed capital contributions.

Employer's taxes on share options

Employer's National Insurance in the UK and equivalent taxes in other jurisdictions are payable on the exercise of certain share options. In accordance with the provisions of Urgent Issues Task Force Abstract 25 'National Insurance Contributions on Share options', a provision is made based on the current employer's National Insurance rate applied to the difference between the market value of the shares under option and the option exercise price at the balance sheet date where such liability has not been transferred to the employees. The provision is charged to the profit and loss account over the period in which the share options vest.

Notes to the Financial Statements (continued)

1. Accounting policies (continued)

Employee share ownership plan

The Company's Employee Benefits Trust (EBT) is a separately administered trust which will be funded by loans from the Company, the assets of which will comprise shares in the Company. The Company will recognise the assets and liabilities of the EBT in its own accounts and shares held by the trusts will be recorded at cost as a deduction in arriving at shareholders' funds until such time as the shares vest unconditionally to employees.

Related party transactions

FRS 8, 'Related party disclosures' permits groups to be exempt from disclosing transactions or balances with entities which form part of the Group, where these transactions and balances have been eliminated on consolidation. The Group has taken advantage of this exemption.

2. Segmental Analysis

The Directors are of the opinion that the Group has only one class of business.

The analysis by geographical area of the Group's turnover is set out below:

	2005	
	Sales by destination £'000	Sales by Origin £'000
Geographical segment		
United Kingdom, Continental Europe, Middle East and Africa	11,017	11,844
Americas	13,555	12,710
Asia	1,664	1,682
Turnover	26,236	26,236

The analysis by geographical area of the Group's loss before tax and net assets is set out below:

	2005	
	Loss before interest & tax £'000	Net assets £'000
Geographical segment		
United Kingdom, Continental Europe, Middle East and Africa	(4,133)	13,041
Americas	(98)	36,219
Asia	(57)	1,253
Total	(4,288)	50,513

3. Employee information

Average monthly number of full time equivalent individuals (including executive Directors) employed during the period was:

	2005 number Group	2005 number Company
Inspection and testing services	773	-
Administration	306	1
	1,079	1

The aggregate cost of employees (including executive Directors) was:

	2005 £'000 Group	2005 £'000 Company
Wages and salaries	10,188	233
Social security costs	789	28
Other pension costs	478	20
Share option charge for employees	102	45
	11,557	326

Directors' emoluments

The emoluments of the Chairman and executive Directors, and fees payable for the services of the non executive Directors are as follows:

Salary bonus & fees £'000	Benefits £'000	Total £'000	Pension £'000
470	3	473	20

The emoluments of the highest paid Director were £233,000 with £20,000 being paid to a defined contribution pension scheme.

4. Interest receivable and similar income

	2005 £'000
Bank interest receivable	149
Fair value of interest rate cap	33
	182

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Notes to the Financial Statements (continued)

5. Interest payable and similar charges

	2005 £'000
On bank loans and overdrafts	(383)
Amortisation of issue costs of bank loan	(8)
	(391)

6. Group operating loss

	2005 £'000
Loss on ordinary activities before taxation is stated after charging:	
Staff costs (note 3)	11,455
Depreciation of tangible fixed assets:	
- owned assets	998
- under finance leases	3
Amortisation of goodwill	367
Loss on disposal of fixed assets	83
Options and warrant compensation charge	151
Hire of machinery and equipment	77
Other operating lease rentals	780
Operating exceptional costs	3,816
Net exchange gain on foreign currency	621
Services provided by the group's Auditor and network firms	
Audit services	
- Statutory audit (Company: £10,000)	270
Further assurance services (relating to the acquisition of Inspectorate)	530
Tax services	
- Advisory services	45

Operating exceptional costs comprise the following:

- Costs associated with restructuring the Inspectorate group, including redundancy and office closures.
- Costs of IT harmonisation, including write down of assets on systems that have been replaced.
- Proportion of the costs of debt arrangement for facilities not utilised at 31 December 2005.
- Abortive acquisition costs.

All of the above are included in operating cash flows with the exception of the write down of fixed assets which are non-cash items.

7. Tax on loss on Ordinary Activities

The tax on loss on ordinary activities comprises:

	2005 £'000
Foreign tax	
Corporation taxes – current year	743
Total current tax credit	743
Deferred tax	
Origination and reversal of timing differences:	
Representing:	
United Kingdom	(37)
Foreign tax	(698)
Total deferred tax charge	(735)
Tax credit on loss on ordinary activities	8
The tax credit for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:	
Loss on ordinary activities before tax	(4,495)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	1,349
Effects of:	
Items not deductible for tax purposes	(149)
Adjustment in respect of foreign tax rates	38
Unrelieved Group tax losses	(776)
Tax timing differences	225
Loss relief	56
Total current tax credit	743

The tax charge on ordinary activities losses is driven by a combination of unrelieved Group losses, higher overseas tax rates and non-deductible items.

8. Loss for the financial year

The Company has taken advantage of section 230 of the Companies Act 1985, and has not included a profit and loss account in these financial statements. The loss attributable to the members of the parent Company is £537,000.

Notes to the Financial Statements (continued)

9. Loss per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

There are no dilutive potential ordinary shares.

Details of the earnings and weighted average number of shares used in the calculations are set out below:

	2005
Loss after taxation (£'000)	4,549
Weighted average number of shares	17,930,498
Basic and diluted loss per share (pence)	(25.4)p

10. Intangible fixed assets

The Group	Goodwill £'000
Cost	
On incorporation	-
Additions (see note 21)	34,864
Exchange movements	526
At 31 December 2005	35,390
Aggregate amortisation	
On incorporation	-
Charge for the period	367
Exchange movements	-
At 31 December 2005	367
Net Book Value	
At 31 December 2005	35,023

Goodwill on acquisitions is being amortised on a straight-line basis over 20 years being the Directors' best estimate of the useful economic life.

11. Investments

Options have been granted to employees of subsidiaries and warrants have been granted for services performed in subsidiaries. In the company accounts, these are treated as deemed capital contributions and included in investments.

The Company	Investments £'000
Cost	
On incorporation	-
Deemed capital contribution	345
At 31 December 2005	345

Principal entities comprising the Group were as follows:

Name	Country of incorporation or registration	Proportion held	Activity
Inspicio Holdings Limited*	England & Wales	100%	Holding Company
Inspicio Investments BV	Netherlands	100%	Holding Company
Inspectorate America Corporation	USA	100%	Inspection Operations
Inspectorate de Argentina SA	Argentina	100%	Inspection Operations
Inspectorate do Brasil Ltda	Brazil	100%	Inspection Operations
Inspectorate Espanola SA	Spain	100%	Inspection Operations
Inspectorate Germany GmbH	Germany	100%	Inspection Operations
Inspectorate Ghent NV	Belgium	100%	Inspection Operations
Inspectorate Holdings PLC	England & Wales	100%	Inspection Operations
Inspectorate Hong Kong Ltd	Hong Kong	100%	Inspection Operations
Inspectorate India Pvt Ltd	India	60%	Inspection Operations
Inspectorate International Ltd	England & Wales	100%	Inspection Operations
Inspectorate Malaysia Sdn Bhd	Malaysia	80%	Inspection Operations
Inspectorate Saudi Arabia Ltd	Saudi Arabia	65%	Inspection Operations
Inspectorate (Singapore) Pte Ltd	Singapore	100%	Inspection Operations
Inspectorate Suisse SA	Switzerland	100%	Inspection Operations
Inspectorate (Thailand) Co Ltd	Thailand	100%	Inspection Operations
Inspectorate USA Inc	USA	100%	Inspection Operations
Inspectorate (Shanghai) Ltd	China	50%	Inspection
Inspectorate Worldwide Services Ltd	England & Wales	100%	Inspection Operations
Daniel C Griffith Holdings Limited	England & Wales	100%	Holding Company
Griffith Holding BV	Netherlands	100%	Holding Company
Inspectorate America Holding Inc	USA	100%	Holding Company
Inspectorate (Overseas) Ltd	England & Wales	100%	Holding Company
Inspectorate (US) Ltd	England & Wales	100%	Holding Company
IOL Investments BV	Netherlands	100%	Holding Company
LW Cargo Survey Aktiebolag	Sweden	100%	Inspection Operations
Mertcontrol Minosegellenorzo Rt	Hungary	74.9%	Inspection Operations
National Oil Inspection Services Rotterdam BV	Netherlands	100%	Inspection Operations
Rosinspectorate ZAO	Russia	100%	Inspection Operations
Servicios de Inspeccion Inspectorate Chile Limitada	Chile	100%	Inspection Operations

* The Company has a direct investment in Inspicio Holdings Limited.
All of the remaining subsidiaries are indirectly held.

Notes to the Financial Statements (continued)

11. Investments (continued)

The interest in Inspectorate (Thailand) Co Ltd is 100% of the ordinary share capital. Whilst Inspicio holds 100% of the ordinary share capital, a third party holds preference shares equal to 51% of the total share capital.

All the above subsidiaries are included in the Group consolidation and are accounted for through acquisition accounting, and all have an accounting year end of 31 December, with the exception of Inspectorate India Pvt Ltd, which, to accord with local regulations, has an accounting year end of 31 March.

The group acquired the minority share in Mertcontrol Minosegellenorzo Rt on 15 March 2006.

12. Tangible fixed assets

The Group	Freehold land and buildings £'000	Long leasehold £'000	Short leasehold £'000	Laboratory and office equipment £'000	Total £'000
Cost					
On incorporation	-	-	-	-	-
Acquisitions	3,363	1,155	127	16,316	20,961
Additions	85	58	129	1,484	1,756
Disposals	-	-	(15)	(68)	(83)
Exchange movements	11	18	5	437	471
At 31 December 2005	3,459	1,231	246	18,169	23,105
Depreciation					
On incorporation	-	-	-	-	-
Charge for the period	60	34	7	900	1,001
Impairment	-	-	-	1,092	1,092
Disposals	-	-	-	-	-
Exchange movements	-	-	-	12	12
At 31 December 2005	60	34	7	2,004	2,105
Net Book Value					
At 31 December 2005	3,399	1,197	239	16,165	21,000

The net book value of the tangible fixed assets of the Group at 31 December 2005 includes £58,000 in respect of assets held under finance leases. The depreciation charge for the 38 weeks ended 31 December 2005 for assets held under finance leases was £3,000.

The Company has no tangible fixed assets.

13. Debtors

	2005	
	The Group £'000	The Company £'000
Trade debtors	19,816	-
Amounts owed by Group undertakings	-	51,641
Other debtors	2,513	15
Prepayments and accrued income	3,206	-
	25,535	51,656

Trade debtors are stated net of a provision of £1,844,000.

Amounts owed by Group undertakings are recoverable after more than one year from the balance sheet date.

14. Creditors: Amounts falling due within one year

	2005	
	The Group £'000	The Company £'000
Bank overdrafts	311	-
Trade creditors	5,012	-
Corporation tax payable	623	-
Other taxation and social security	676	-
Other creditors	721	-
Deferred consideration	2,155	-
Obligations under finance leases	40	-
Accruals and deferred income	13,135	808
	22,673	808

For the
38 weeks
ended
31 December
2005

Notes to the Financial Statements (continued)

15. Creditors: Amounts falling due in more than one year

	2005	
	The Group £'000	The Company £'000
Bank loans	6,810	-
Other loans	287	-
Obligations under finance leases	67	-
	7,164	-

The analysis of loans and finance leases maturity is as follows:

The Group	Finance leases £'000	2005	
		Loans £'000	Total £'000
Less than one year	40	-	40
Between one and two years	17	287	304
Between two and five years	50	6,810	6,860
	107	7,097	7,204

The Company has no loans or finance leases.

As at 31 December 2005, the Group's bank loans and finance lease obligations respectively comprised of £6,872,000 secured loans and mortgages, £225,000 unsecured loans and £107,000 finance leases. The mortgage is secured against freehold property in Sweden.

Of the obligations under finance leases at 31 December 2005, £17,000 expires between one and two years, £50,000 between two and five years, and £nil expires in more than five years.

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents or government bond rates appropriate to the country in which the borrowing is incurred. In November 2005, as part of the interest rate management strategy the company entered into an interest rate cap for a notional principal amount of \$15 million maturing in November 2008. Under this arrangement, the interest rate payable by the Group on its main bank loan facility is capped at a rate of 5.5%.

The secured bank loans are secured by fixed and floating charges over the assets of certain Group companies.

The Group's secured bank loans are stated net of unamortised issue costs of £190,000. The Company incurred total issue costs of £445,000 in respect of the five year committed revolving credit facility and the five year term facility loan entered into in October 2005 under which amounts have been drawn down to fund in part the acquisition of Inspectorate and in part the Group's ongoing activities. The unamortised issue costs together with the interest expense are allocated to the profit and loss account over the five year term of the facility at a constant rate on the carrying amount.

16. Provisions for Liabilities and Charges

	Deferred tax £'000	Onerous leases & dilapidations £'000	Other provisions £'000	Total £'000
On incorporation	-	-	-	-
Acquired	(220)	689	4,019	4,488
Charge to profit and loss account	735	-	284	1,019
Utilised	-	(61)	(119)	(180)
Exchange movements	19	-	-	19
At 31 December 2005	534	628	4,184	5,346

Other provisions principally include claims against the group. As the provisions are expected to be utilised over a short period of time, the Directors do not consider it necessary to discount them.

The Company has no provisions.

17. Deferred Taxation

The amounts of deferred taxation recognised are set out below:

	2005 £'000
Provision for deferred tax comprises:	
Accelerated capital allowances	234
Short term timing differences	300
Net deferred tax liability	534

The Group has potential deferred tax assets of £1,707,000 at 31 December 2005 in respect of overseas group tax losses. These have not been recognised due to the lack of certainty over their recoverability.

18. Pensions Obligations

The Group and Company operates defined contribution schemes in respect of its employees. The costs are as follows:

	2005 Group £'000	2005 Company £'000
Pension costs	478	20

Notes to the Financial Statements (continued)

19. Reconciliation of Operating loss to Net Cash flow from Operating Activities

	2005 £'000
Group operating loss	(4,288)
Goodwill amortisation	367
Depreciation on tangible fixed assets	1,001
Loss on disposal of fixed assets	83
Impairment of fixed assets	1,092
Fair value of financial instruments	35
Fair value charge for options and warrants	150
Foreign exchange movement on inter-company	(349)
Increase in debtors	(1,498)
Decrease in creditors	(2,274)
Increase in provisions	94
Net cash outflow from operating activities	(5,587)

20. Analysis of Net (Debt)/Funds

	Loans £'000	Cash at bank and in hand £'000	Bank overdrafts £'000	Finance leases £'000	Net (Debt)/Funds £'000
At incorporation	-	-	-	-	-
Cash flow	(6,784)	(1,633)	(311)	10	(8,718)
Acquired with subsidiary	(331)	5,722	-	(45)	5,346
Non-cash items	17	-	-	(71)	(54)
Exchange differences	1	51	-	(1)	51
At 31 December 2005	(7,097)	4,140	(311)	(107)	(3,375)

21. Acquisitions

BSI Investments BV (Inspectorate Group)	Book value £'000	Revaluation £'000	Consistency of accounting policy £'000	Other £'000	Provisional fair value £'000
Tangible fixed assets	21,872	(911)	-	-	20,961
Stock	431	-	(431)	-	-
Debtors	23,566	-	(626)	718	23,658
Creditors	(18,768)	-	(388)	(1,274)	(20,430)
Financial liability	(718)	-	-	-	(718)
Finance leases	(45)	-	-	-	(45)
Provisions	(3,860)	-	(848)	-	(4,708)
Taxation					
- Current	(1,054)	-	-	-	(1,054)
- Deferred	171	-	-	49	220
Cash	5,722	-	-	-	5,722
Long term loans	(331)	-	-	-	(331)
Minority interests	(2,006)	-	-	-	(2,006)
Net assets acquired	24,980	(911)	(2,293)	(507)	21,269
Cost of acquisition					
Consideration – cash					54,155
Acquisition expenses					1,978
Goodwill					34,864

The book value of the assets and liabilities has been taken from the management accounts of BSI Investments BV at 13 October 2005 (the date of acquisition) at actual exchange rates on that date. Due to the timing of the acquisition, the fair value adjustments contain some provisional amounts which will be finalised in the 2006 financial statements when the detailed acquisition process has been completed.

Revaluation adjustments in respect of tangible fixed assets comprise the valuations of certain freehold properties together with the impairment of certain fixed assets.

The fair value adjustments for alignment of accounting policies reflect the restatement of assets and liabilities in accordance with the Group's policies including: the removal of consumable stocks held on the balance sheet; establishing a creditor for outstanding holiday pay entitlement of employees; the alignment of the general bad debt provisioning policy and the policy relating to onerous lease and dilapidation provisions and the establishment of an incurred but not reported element in respect of certain claims against the Group.

No deferred tax has been recognised on the revaluation of fixed assets as there is no intention to sell the assets concerned. However, deferred tax of £49,000 has been recognised in respect of some of the impairments of fixed assets in accordance with FRS 19.

Notes to the Financial Statements (continued)

21. Acquisitions (continued)

Other adjustments relate to commitments at acquisition to employees of the acquired business and other commitments of that business, some of which were recoverable from the former parent.

Of the cash consideration, £2,155,000 was included within creditors at 31 December 2005 and was paid in January 2006.

Goodwill has been revalued at the balance sheet date, in accordance with FRS 23, giving rise to an exchange gain of £526,000.

In its last financial year to 31 December 2004, the Inspectorate group made a loss after tax and minority interests of £5,400,000. For the period since that date to the date of acquisition, the Inspectorate Group's management accounts show:

	£'000
Turnover	79,870
Operating profit	(3,946)
Profit before tax	(4,475)
Tax	(1,882)
Minority interest	(268)
Profit attributable to shareholders	(6,625)

From the date of acquisition to 31 December 2005, the Inspectorate Group utilised £5,425,000 of the Group's net operating cash flows, received £17,000 in respect of interest, paid £290,000 in respect of taxation and utilised £1,685,000 for capital expenditure.

22. Financial Instruments

a) Financial Risk Management

The principal aims of the Group's financial risk management activities are to monitor and address the risks arising from the Group's external and internal funding requirements, optimise net interest cost after tax and manage financial risk arising from the international business of the Group, principally interest rate and currency risk.

Given the size of the Group, the Directors have not delegated the responsibility for monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Group's finance department. The department plans in future to develop a policy and procedures manual that will set out specific guidelines to manage foreign exchange risk, interest rate risk, credit risk, liquidity risk and price risk and the circumstances where it is appropriate to use financial instruments to manage these.

Liquidity Risk

The Group's financial risk management activities in this area seek to achieve a balance between certainty of funding with committed facilities and a flexible cost-effective structure. At 31 December 2005 the Group had bank facilities of £20,000,000 (of which £7,000,000 had been drawn down) and net cash of

£3,829,000. The facilities are comprised of a £10,000,000 five year committed revolving credit facility and a £10,000,000 five year term facility loan. A further £2,190,000 was drawn down against the revolver facility in January 2006.

Of the loans and facilities, which totalled £7,204,000 as at 31 December 2005, £6,979,000 are secured, including £107,000 of finance leases and £62,000 of secured mortgages.

Interest Rate Risk

The Group has both interest bearing assets and interest bearing liabilities, with the main interest rate risk arising on the bank facilities drawn down. The Group has used an interest rate cap to address this, which has the effect of capping the interest rate payable, on the first £8,737,000 of borrowing, at 5.5%. The floating rate interest rate on the bank facility at 31 December 2005 was 4.9%, so that the cap was not effective. The Group has used a cap rather than raising fixed rate borrowings as using floating rate borrowing facilities and entering into the cap was a cheaper method of raising the debt necessary during the year. The interest rate cap is to be settled on a quarterly basis, with the settlement amount being the difference between the capped and the floating interest rate amounts on the outstanding amount up to £8,737,000.

Currency Exposure and Hedging

The Group operates internationally through the Inspectorate business, giving rise to exposure from changes in foreign exchange rates, particularly the US Dollar and the Euro.

No financial instruments have been designated as hedges under Inspicio management.

The Group is developing its policy for taking out forward currency contracts or options, including the level to which future sales will be covered by derivatives. At 31 December 2005 the Group had simple currency options and a resettable forward.

The Group intends in future to finance overseas investments mainly through the use of foreign currency borrowings to hedge the foreign currency investment.

Credit Risk

The Group is exposed to credit related losses on financial instruments, in the event of non-performance by counterparties, but it does not expect any counterparties to fail to meet their obligations given the Group's policy of selecting only counterparties with high credit ratings.

In territories such as emerging markets which may represent higher than usual concentrations of trading credit risk, instruments such as letters of credit are used. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

Notes to the Financial Statements (continued)

22. Financial Instruments (continued)

b) Numerical disclosures

Numerical financial instruments disclosures are set out below.

A description of the accounting policies relating to financial instruments is set out in the Accounting Policies in Note 1 to these accounts.

The fair values and book values of the Group's financial instruments are set out below:

	2005	
	Book value £'000	Fair value £'000
Primary financial instruments held or issued to finance the Group's operations:		
Long-term borrowing	(7,097)	(7,097)
Provisions (excluding deferred tax)	(4,812)	(4,812)
Trade and other payables	(22,429)	(22,429)
Trade and other receivables	25,535	25,535
Cash at bank and in hand	3,829	3,829
	4,974	4,974
Derivative financial instruments held or issued :		
Currency options and resettable forward – liability	(110)	(110)
Currency options and resettable forward – asset	75	75
Interest rate caps	33	33
	4,972	4,972

In the case of long-term bank loans, the fair value approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year. For provisions the fair value approximates the book value as these are discounted where settlement will be deferred.

The fair value of short-term bank loans and overdrafts approximates to the carrying amount because of the short maturity of these instruments. The fair value of other short term payables and receivables equals their book value as this is the amount which would be payable if the asset had been realised or the liability had crystallised at the balance sheet date.

The fair value of the simple currency options and the resettable forward has been determined based on the present value of the estimated future cash flows associated with the instruments. The fair value of the interest rate cap is based on the market price of comparable instruments at the balance sheet date.

Undrawn Borrowing Facilities

The Group had the following undrawn committed borrowing facilities available for draw down:

	Fixed rate £'000	Floating rate £'000	2005 total £'000
Expiring within one year	-	3,750	3,750
Expiring in more than 2 years	-	9,250	9,250
	-	13,000	13,000

23. Capital Commitments

	2005 £'000
Capital expenditure that has been contracted for but not provided for in the financial statements	28

24. Financial Commitments of the Group

At 31 December 2005, annual commitments under non-cancellable operating leases were as follows:

	2005	
	Land and buildings £'000	Other £'000
Expiring within one year	823	313
Expiring within two and five years	1,021	351
Expiring in over five years	832	-
	2,676	664

25. Related Party Transactions

Marwyn Capital Limited and Marywn Partners Limited are deemed to be related parties of Inspicio plc by virtue of a common Director, Mark Watts.

The Group has a corporate advisory agreement with Marwyn Capital Limited, dated 22 April 2005. Under the terms of the appointment, Marwyn Capital Limited provides general strategic and corporate financial services to the Group for a fee of £50,000 in respect of the placings and a fixed monthly fee of £15,000 plus expenses. In addition, Marwyn Capital Limited received a fee of £200,000 in respect of the acquisition of Inspectorate.

The Group also has an arrangement with Marywn Partners Limited for the provision of temporary accommodation and associated back office support services for a fee of £500 per month.

Marwyn Capital Limited holds 1,000,000 warrants, unconnected to the value of their services. The conditions for these vesting are disclosed in note 30.

Of the 50,000 preference shares issued and later redeemed, 25,000 shares were issued to each of Mark Silver and Keith Tozzi.

Notes to the Financial Statements (continued)

25. Related Party Transactions (continued)

There were no other transactions or contracts of significance with related parties. FRS8 "Related party disclosures" requires the disclosure of the details of material transactions between reporting entities and related parties. The Group has taken advantage of exemptions under FRS8 not to disclose transactions between subsidiary undertakings 90 percent or more of whose voting rights are controlled within the group.

26. Contingent Liabilities

The Group has a number of cases of ongoing litigation which arise in the normal course of business. The Group does not expect any significant liability to arise from these cases.

27. Share capital

	2005 £'000
Authorised	
100,000,000 ordinary shares of 10p each	10,000
<hr/>	
	2005 £'000
Allotted, called up and fully paid	
55,000,000 ordinary shares of 10p each	5,500
At 31 December 2005	5,500

On the date of incorporation, 50,000 redeemable preference shares were issued for a cash consideration of £12,500. On 28 May 2005, these were redeemed.

On 29 April 2005, 1,795,000 ordinary shares were issued for a cash consideration of £1,795,000.

On 2 May 2005, 1,150,000 ordinary shares were issued for a cash consideration of £1,150,000.

On 6 May 2005, 55,000 ordinary shares were issued for a cash consideration of £55,000.

On 12 October 2005, 51,500,000 ordinary shares were issued for a cash consideration of £51,500,000.

On 21 December 2005, 500,000 ordinary shares were issued for a cash consideration of £500,000.

28. Reconciliation of movements in shareholders' funds

	2005	
	The Group £'000	The Company £'000
Loss for the financial period	(4,549)	(537)
Issue of ordinary shares	5,500	5,500
Premium on new share issued	49,500	49,500
Share issue costs	(3,179)	(3,179)
Foreign exchange gains	781	-
Options and warrants compensation charge	390	390
Movement in equity shareholders' funds in the period	48,443	51,674
Equity shareholders' funds at the beginning of the period	-	-
Equity shareholders' funds at 31 December 2005	48,443	51,674

29. Reconciliation of movements in reserves

The Group	Share premium account £'000	Profit and loss account £'000	Other reserves £'000
Premium on new shares issued	49,500	-	-
Expenses of share issue	(3,179)	-	-
Loss for the financial period	-	(4,549)	-
Warrants and options compensation charge	-	390	-
Foreign exchange gains	-	-	781
31 December 2005	46,321	(4,159)	781

The Group	Share premium account £'000	Profit and loss account £'000	Other reserves £'000
Premium on new shares issued	49,500	-	-
Expenses of share issue	(3,179)	-	-
Loss for the financial period	-	(537)	-
Warrants and options compensation charge	-	390	-
Foreign exchange gains	-	-	-
31 December 2005	46,321	(147)	-

For the
38 weeks
ended
31 December
2005

Notes to the Financial Statements (continued)

30. Share options

The Company has a number of share option schemes and an Employee Benefit Trust Incentive Scheme for its employees, which have been approved by the Inland Revenue. Options will normally be granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. Options granted in October 2005 prior to the readmission to AIM on 13 October 2005 were granted using an estimate of the market price. The contractual life of an option under these schemes varies from three to seven years.

In addition, options have been granted on similar terms to key management, but at the discretion of the Board.

Share options granted to employees at 31 December 2005 were as follows. All were granted in the period, none could be exercised, and none lapsed.

Option Scheme	Number Granted	Date Granted	Exercise Price	Expiry Date	Remaining life (years)	
					Expected	Contractual
Enterprise Management Incentive Scheme						
Class "A"	99,998	5 October 2005	100p	4 October 2012	2.8	6.8
Class "B"	100,000	5 October 2005	100p	4 October 2012	3.2	6.8
Class "A"	49,999	12 October 2005	111.5p	11 October 2012	2.8	6.8
Class "B"	39,686	12 October 2005	111.5p	11 October 2012	3.2	6.8
Employee Benefit Trust Scheme						
Class "A"	1,600,000	5 October 2005	100p	4 October 2012	2.8	6.8
Class "B"	450,000	5 October 2005	100p	4 October 2012	3.2	6.8
Class "C"	1,150,003	5 October 2005	100p	4 October 2012	3.2	6.8
Incentive Stock Option Scheme						
Class "A"	603,000	14 October 2005	111.5p	13 October 2012	3.7	6.8
Class "B"	603,000	14 October 2005	111.5p	13 October 2012	4.1	6.8
Unapproved Scheme						
Class "A"	59,500	14 October 2005	111.5p	13 October 2012	2.8	6.8
Class "B"	69,814	14 October 2005	111.5p	13 October 2012	3.2	6.8
	<u>4,825,000</u>					

During the year, therefore, the following share options were issued under the above schemes:

- 3,400,001 share options with an exercise price 100p
- 1,424,999 share options with an exercise price of 111.5p

The market price for these shares at 31 December 2005 was 104p and the high and low for the period was 115p and 99p. There are certain performance criteria to be met before share options are exercisable and these are summarised below:

- EMI Class "A", EBT "A" shares, and unapproved class "A" shares vest after holders satisfy a period of three years continual service.
- EMI Class "B", EBT class "C", and unapproved class "B" shares vest after holders satisfy a period of three years continual service and Inspicio achieves EBITA margin of 8% in the published accounts.
- EBT Class "B" shares vest after holders satisfy a period of three years continual service and Inspicio achieves a positive EPS for 2 consecutive years.
- ISO Class "A" shares vest after completing continual years of service from 3 years to 7 years; ISO Class "B" shares vest after completing continual years of service from 3 years to 7 years and Inspicio achieves EBITA margin of 8% in the published accounts.

Directors' Share Options

Included in the share options above are the following options granted to Directors:

	At start of year	Granted during the year	At end of year	Exercise Price	1. Date from which partially exercisable 2. Expiry Date
Mark Jonathan Silver					
EMI class A	-	49,999	49,999	100p	1. 5 October 2008 2. 4 October 2012
EMI class B	-	50,000	50,000	100p	1. 5 October 2008 2. 4 October 2012
EBT class A	-	450,000	450,000	100p	1. 5 October 2008 2. 4 October 2012
EBT class B	-	225,000	225,000	100p	1. 5 October 2008 2. 4 October 2012
EBT class C	-	225,001	225,001	100p	1. 5 October 2008 2. 4 October 2012
	-	1,000,000	1,000,000		
Keith Tozzi					
EMI class A	-	49,999	49,999	100p	1. 5 October 2008 2. 4 October 2012
EMI class B	-	50,000	50,000	100p	1. 5 October 2008 2. 4 October 2012
EBT class A	-	450,000	450,000	100p	1. 5 October 2008 2. 4 October 2012
EBT class B	-	225,000	225,000	100p	1. 5 October 2008 2. 4 October 2012
EBT class C	-	225,001	225,001	100p	1. 5 October 2008 2. 4 October 2012
	-	1,000,000	1,000,000		

None of the Directors at the balance sheet date exercised options during the year.

Notes to the Financial Statements (continued)

30. Share options (continued)

Marwyn Capital Limited hold 1,000,000 warrants; the conditions for these vesting are as follows:

- 500,000 vest after a period of three years
- 250,000 vest after a period of three years and Inspicio achieves EBITA margin of 8% in the published accounts, at any time between the grant of the warrant and 5 October 2012 (when the warrants lapse).
- 250,000 vest after a period of three years and Inspicio achieves a positive EPS for two consecutive years, at any time between the grant of the warrant and 5 October 2012 (when the warrants lapse).

Options were valued using a binomial option-pricing model. Awards without performance conditions have been valued using an assumed exercise behaviour. Awards with non-market performance conditions (i.e. an EBITA target) have also been valued using an assumed exercise behaviour and also an estimate of the number of options likely to vest given the performance conditions.

The fair value per option granted and the assumptions used in the calculation are as follows:

	EMIS scheme	EBT scheme	ISO scheme	Unapproved scheme
Grant date	7/10/2005	5/10/2005	14/10/2005	14/10/2005
Share price at grant date	103.6p	100.0p	111.5p	111.5p
Exercise price	103.6p	100.0p	111.5p	111.5p
Number of employees	3	22	13	2
Shares under option	289,683	3,200,003	1,206,000	129,314
Vesting period (years)	3.2	3.2	4.2	3.1
Expected volatility	25%	25%	25%	25%
Option life (years)	7.0	7.0	7.0	7.0
Expected life (years)	3.2	3.2	4.2	3.1
Risk free rate	4.18%	4.17%	4.30%	4.27%
Expected dividends expressed as a dividend yield	0.0%	0.0%	0.0%	0.0%
Fair value per option	30.2p	28.8p	35.0p	32.3p

Directors' options

Grant date	5/10/2005	5/10/2005	-	-
Share price at grant date	100.0p	100.0p	-	-
Exercise price	100.0p	100.0p	-	-
Number of employees	2	2	-	-
Shares under option	199,998	1,800,002	-	-
Vesting period (years)	3.2	3.1	-	-
Expected volatility	25%	25%	-	-
Option life (years)	7.0	7.0	-	-
Expected life (years)	3.2	3.1	-	-
Risk free rate	4.17%	4.17%	-	-
Expected dividends expressed as a dividend yield	0.0%	0.0%	-	-
Fair value per option	28.8p	28.8p	-	-

The expected volatility is based on historical volatility over the three years ended 5 October 2005 of a group of four comparator companies.

The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge for the period relating to employee share based payment plans was £108,000, all of which related to equity-settled share based payment transactions. No deferred tax has been recognised on this charge as the Company is loss-making.

31. Post Balance Sheet Events

Since 31 December, the Group has made the following acquisitions:

The remaining minority share in Mertcontrol Minosegellenorzo Rt on 15 March 2006, for a consideration of €100,000.

51% of the share capital of Acacus Inspection International Limited on 28 April 2006, for a consideration of \$510,000.

100% of the share capital of Environmental Services Group Limited on 30 April 2006, for a consideration of £16,000,000.

To fund the acquisition of Environmental Services Group Limited, the Company issued a further 3,750,000 shares for a consideration of £4,481,000 and extended its bank facilities by a further £10,000,000. Share issue costs were £134,000 and debt issue costs were £260,000.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Inspicio plc will be held at Bucklersbury House, 3 Queen Victoria Street, London, EC4N 8EL at 9.00 am on 21 June 2006 for the following business; resolutions 1-6 being proposed as ordinary resolutions and resolutions 7-9 as special resolutions:

Ordinary business

1. To receive and adopt the report of the Directors and the financial statements of the Company for the 38 weeks ended 31 December 2005.
2. To re-appoint PricewaterhouseCoopers LLP as Auditors and to authorise the Directors to fix their remuneration.
3. To re-elect Keith Tozzi as a Director.
4. To re-elect Mark Silver as a Director.
5. To re-elect Mark Watts as a Director.
6. To re-elect Chris Slack as a Director.

Special business

7. In substitution for all existing authorities (save to the extent already utilised), the Directors of the Company be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £293,750 provided that this authority (unless previously renewed, varied or revoked by the Company in general meeting) shall expire at the end of the next Annual General Meeting of the Company to be held after the date of the passing of this resolution or, 15 months from the date of the passing of this resolution, whichever is the earlier and that the Directors shall be entitled under the authority conferred by Section 80(7) of the Act and this resolution to make at any time prior to the expiry of such authority any offer or agreement which would or might require securities of the Company to be allotted after the expiry of such authority and the Directors may allot relevant securities in pursuance of that offer or agreement as if the authority hereby conferred had not expired.
8. In substitution for all existing authorities (save to the extent already utilised), subject to the passing of resolution 7 above, the Directors of the Company be and they are hereby generally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act and/or where such an allotment constitutes an allotment of equity securities by virtue of Section 94(3A) of the Act) for cash pursuant to the authority conferred on them by resolution 7 above as if section 89(1) of the Act did not apply to any such allotment, provided that the power conferred by this resolution shall be limited to:

8.1. the allotment of equity securities in connection with an issue or offering by way of rights in favour of holders of equity securities and any other person entitled to participate in such issue or offering where the equity securities respectively attributable to the interest of such holders and persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by or deemed to be held by them on the record date of such allotment subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or requirements of any recognised regulatory body or any territory; and

8.2. the allotment (otherwise than pursuant to paragraph 8.1 above) of equity securities for cash up to an aggregate nominal value not exceeding £293,750.

and this power (unless previously renewed, varied or revoked) shall expire at the end of the next Annual General Meeting of the Company to be held after the date of the passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier but the Company may make any offer or agreement which would or might require equity securities to be allotted after the expiry of this authority and the Directors may allot equity securities in pursuance of that offer or agreement as if the authority hereby conferred had not expired.

9. That pursuant to the authorities contained in its Articles of Association the Company is hereby granted general and unconditional authority to make market purchases (within the meaning of Section 163(3) of the Act) of up to an aggregate nominal amount of £293,750 (representing five per cent. of the Company's issued ordinary share capital) provided that:

9.1 The maximum price per ordinary share of 10 pence each in the share capital of the Company (the "Ordinary Shares") is not more than 5% above the average market value for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the last five business days in respect of which such Daily Official List is published before the purchase is made, and the minimum price per Ordinary Share is not less than 10 pence, the maximum and minimum prices being exclusive of any expenses; and

9.2 This authority (unless previously renewed, varied or revoked) shall expire at the end of the next Annual General Meeting of the Company to be held after the date of the passing of this resolution or 15 months from the date of the passing of this resolution, whichever is the earlier but the Company may make a contract or contracts to purchase ordinary shares under the authority conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the Board
Mark Silver, Chief Executive
17 May 2006
Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL

Notice of Annual General Meeting (continued)

Notes:

1. Only those members registered in the register of members of the Company as at 9.00 am on 19 June 2006 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time.
2. Any member entitled to attend and vote at the meeting may appoint one or more other persons as a proxy or proxies to attend and, in the event of a poll, to vote instead of him or her. A proxy need not be a member of the Company. Shareholders will receive a Proxy Form with this document. Proxy Forms should be lodged with the Company's Registrar, Capita Registrars, 7th Floor, Phoenix House, 18 King William Street, London EC4N 7HE or submitted not later than 48 hours before the time for which the AGM is convened. Completion of the appropriate Proxy Form does not prevent a member from attending and voting in person if he/she is entitled to do so and so wishes.
3. The Register of directors' interests in shares in, or debentures of, the Company and copies of the directors' service contracts of more than one year's duration will be available for inspection at the registered office of the Company during business hours only on any weekday (excluding Saturdays, Sundays and public holidays) from the date of this Notice until the date of the Annual General Meeting and at our registered offices from 9.00am until the conclusion of the Meeting.

Biographical details of all those directors who are offering themselves for re-election at the meeting are set out on page 13 and 14.

Annual Report



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