

## **Inspicio plc**

### **Acquisition of the Inspectorate Group (“Inspectorate”)**

**Proposed placings of 52,000,000 new Ordinary Shares of 10p each at 100p per share,  
raising £52 million**

Inspicio plc, which listed on AIM in April 2005, today announces the first acquisition in its strategy to grow through the acquisition and integration of UK and international testing, inspection and performance conformity businesses. Today’s acquisition is a global platform for future bolt-on acquisitive growth.

#### **Highlights**

#### **Acquisition**

- Acquisition of Inspectorate, the global inspection and testing group, for a cash consideration of £52 million, financed through the placing of 52,000,000 new Ordinary Shares at £1 per share, raising £52 million, and through £20million bank debt facilities
- Acquisition delivered ahead of timeframe set out at the IPO in April 2005
- Inspectorate is being acquired from BSI Group, which Mark Silver (CEO of Inspicio) and Keith Tozzi (Chairman of Inspicio) ran between 1998 and 2000
- Inspicio plc was advised by Marwyn Capital and Robert W. Baird Ltd

#### **Inspectorate**

- Inspectorate has an established brand and is one of only five global businesses in the inspection and testing market, operating in 125 countries, with 3,800 staff and with turnover in 2004 of £98.4million

- Inspectorate is an exciting consolidation platform and a strong strategic fit for Inspicio
- Mark Silver and Keith Tozzi, when at BSI, bought Inspectorate in 1998 when the business had turnover of £74.5million with operating margins of 7.1 percent – an 8% operating margin is targeted within two years
- Inspectorate operates in an exciting and growing market which is being driven by regulation. Inspectorate operates in three robust market categories – Oil and Petrochemicals, Metals and Minerals, and Agro-commodities/Food Safety
- Inspectorate infrastructure is very well invested
- Inspectorate has a strong operational management team which will be incentivised through a margin-based performance-related share option scheme

**Mark Silver, Chief Executive Officer of Inspicio plc said:**

“We are pleased to have delivered this acquisition ahead of time.

“Our team is excited by the potential of this business which has been run as part of BSI Group, since 1998. We know the business well and are confident it can deliver an operating margin of 8%.

“Inspectorate offers us a strategic platform to add further value to shareholders through earnings enhancing bolt-on acquisitions.”

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## **Introduction**

The Company announced today that it has entered into a conditional agreement to acquire the entire issued share capital of Inspectorate, the parent company of a global inspection and testing group, for a cash consideration of approximately £52 million.

The Company also announced today that Baird has conditionally placed the Placing Shares with investors at a price of £1 per share, to raise £52 million for the Company. The net proceeds of the Placings will be used to fund the cash consideration for the Acquisition. The Debt Facilities, which the Company has put in place in conjunction with the Acquisition, will be used to satisfy the ongoing working capital requirements of the Enlarged Group, including the costs associated with the Proposals.

The Acquisition constitutes a reverse takeover pursuant to the AIM Rules and is therefore subject to Shareholder approval. Such approval was sought from, and granted by, our shareholders at the EGM. To enable completion to take place, application will be made to the London Stock Exchange for the Existing Shares and the New Ordinary Shares to be readmitted and admitted to trading on AIM. Admission is conditional upon satisfaction of a number of conditions set out in the Acquisition Agreement, the Placing Agreement and the Facilities Agreement.

## **Background to Inspicio**

Inspicio is a recently incorporated company, admitted to AIM on 29 April 2005 with a view to acquiring and managing companies and businesses in the UK and international inspection and testing (including performance conformity) markets.

In the Initial Admission Document, the Directors set a target of implementing an initial acquisition within 12 months of Initial Admission, followed by further acquisitions over the subsequent 18-month period.

The Acquisition will be the first acquisition by the Company following Initial Admission.

In accordance with the AIM Rules, the Existing Shares have been suspended since 8 June 2005. Following publication of the Admission Document, such suspension will be lifted at 8.00am this morning.

## **Inspicio's strategy**

Historically, in addition to large suppliers such as SGS S.A. or Intertek plc, the international inspection and testing market has been served by a large number of small suppliers. The Directors believe that this fragmented market provides opportunities to consolidate inspection and testing businesses through acquisition and that, with the development of a global infrastructure, the Company can create value by exploiting these acquisition opportunities, integrating acquired businesses and implementing cost savings.

Aside from these acquisition opportunities, there are a number of key underlying factors which the Directors believe will provide continued growth in the inspection and testing markets. These factors, which were highlighted in the Initial Admission Document, are as follows:

- regulatory and legislative changes driving the need for new and tougher testing regimes;
- buyers/sellers of goods and services seeking independent third party inspection;
- multinational businesses requiring consistent inspection and testing services;
- commercialisation of performance conformity services; and
- globalisation of supply chains.

The Directors also believe that market factors, such as anticipated global trade and GDP growth, the increased propensity of businesses to outsource, and significant barriers to entry,

will provide opportunities for revenue growth amongst the major international providers of inspection and testing services.

The Company's strategy is therefore to pursue consolidation opportunities in what the Directors view as a fragmented and growing market; to develop a global infrastructure; to integrate acquired businesses; and, in doing so, to create shareholder value.

The Acquisition is the initial step in the implementation of this strategy and, in addition to being a significant business in its own right, the Inspectorate Group will provide a global platform from which the Company will look to make further acquisitions in the inspection and testing markets.

### **Rationale for the Acquisition**

The Inspectorate Group, in the opinion of the Directors, is one of only five global providers in the inspection, testing and certification industry. It therefore satisfies the Company's requirements as to geographical spread, and also meets the Directors' other criteria for a large scale acquisition target in that:

- it is an established business;
- it is a specialist operator;
  - it has a strong, international brand providing a truly global network of inspection and testing services;
- it has a long-standing, blue-chip client base generating repeat business; and
  - the Acquisition would place Inspicio in a strong position in a key market segment, and provide an excellent platform for expansion, both organically and by further acquisition.

The Inspectorate Group is also well known to Mark Silver and Keith Tozzi, as they were finance director and chief executive respectively of BSI from 1998 to 2000. BSI acquired the Inspectorate Group in 1998 and Mark and Keith were involved in the management of the business until mid-2000.

In addition to satisfying the strategic criteria set out above, the Directors believe that the business can be returned to profitability. In 1999, when the current management of Inspicio oversaw the management of the Inspectorate Group, the business generated an operating profit of £6.6 million on revenues of £84.7 million (with an operating margin of 7.2 per cent.). This compares with 2004, when the Inspectorate Group traded at an adjusted EBITA loss of £0.2 million on continuing revenues of £98.4 million and, unfavourably, with its direct comparators: the Caleb Brett division of Intertek plc, which generated £15.5 million EBITA on revenues of £177.3 million in 2004 at an operating margin of 8.7 per cent., and SGS S.A., which generated an operating margin of 11.9 per cent on its oil, gas and chemicals inspection business over the same period.

The Directors believe that an operating margin for global commodity inspection and testing businesses of 8 per cent. is achievable. Intertek plc, the largest UK-quoted company in the commodity inspection and testing sector, is valued at over ten times EBITDA and more than two times revenue as at 5 October 2005. If the Inspectorate Group were to achieve an operating margin of 8 per cent on its current revenue levels, it would, on this basis, be worth more than £100 million. This compares to the purchase price of approximately £52 million.

The Directors believe that the Inspectorate Group has excellent country managers in its key operating territories and that they, and the business itself, will benefit from new and dynamic ownership.

## **Overview of market**

The market in which the Inspectorate Group operates is broadly divided into three key areas – inspection, testing and certification:

- Inspection is the personnel-intensive visual inspection of certain products and measurement of their quantity; and
- Testing involves the capital-intensive analysis of different products (e.g. gold content in parts per billion of a bulk copper consignment); and
- Certification involves certifying that companies, processes, systems or services meet the requirement of standards (often regulatory) for all kinds of products.

Historically, inspection and testing services have been typically used in the commodities industries where global trade is high, regulations can be stringent and quality is a key determinant of price. The Inspectorate Group predominantly operates in these two areas, and aims to provide certification services in its nascent Food Safety sector.

As set out above, the inspection and testing services sector coverage is slowly broadening, driven by the ongoing globalisation of the economy, increasing regulatory requirements and consumer concerns about product quality and sourcing. In addition, the industry participants, including the Inspectorate Group, increasingly leverage their testing and analytical skills and infrastructure to provide other analytical services to customers, including their outsourcing requirements when seeking a skilled cost-effective laboratory function.

## **Overview of the Inspectorate Group**

The Inspectorate Group is a multinational business services group engaged in the inspection and testing of commodities for the purpose of facilitating international trade. Its services are provided to clients who seek to reduce commercial risk through independent verification of the quantity and quality of goods being shipped from seller to buyer. The Group has a significant presence in three commodities markets (Oil and Petrochemicals, Metals and Minerals, and Agrocommodities) and is building a position in Food Safety.

The Inspectorate Group is currently wholly owned by BSI, which acquired the Group in 1998. BSI, in selling the Inspectorate Group, is selling a business which is one of only five key global providers of inspection and testing services, and a group which operates in over 125 countries (including agency relationships). The Inspectorate Group employs more than 3,800 people, including approximately 1,800 inspectors and over 700 laboratory staff, and operates out of 94 laboratories worldwide.

The Inspectorate Group is involved in a broad base of activities including:

- significant worldwide share of Oil and Petrochemicals inspection and testing markets with a strong presence in key ports (for example, Houston, Rotterdam, Singapore, the Middle East and Eastern Europe including Russia and Ukraine);
- broad portfolio of Metals and Minerals capabilities, including a leading umpire laboratory in the UK for precious metals and non-ferrous metals testing;
- strategic position in Food Safety testing in South America as a potential precursor to global growth; and
- established provider of Agrocommodities inspection and testing, including grain, fertiliser and vegetable oils.

## **The Inspectorate Group's business segments**

The Inspectorate Group supplies inspection and testing services, providing producers, processors, customers and traders with validation of the quantity and quality of goods for their trading, investment, operational and valuation decisions. These services are generally provided on an "as needs" basis and relationships with customers tend not to be contract-based, although there are rate agreements with key customers.

The Group's business is made up of the following segments: Oil and Petrochemicals (65%), Metals and Minerals (18%), Agrocommodities and Food Safety (13%).

### *Oil and Petrochemicals*

The Oil and Petrochemicals business accounted for 65 per cent of the Inspectorate Group's revenues in the 2004 financial year, and the US Oil and Petrochemicals business represents the single largest operating business in the Inspectorate Group. The Directors believe that the Group's Oil and Petrochemicals business is the second largest by revenue in both the US and Russia/Ukraine. Its business is also expanding in Asia.

Inspection work in the Oil and Petrochemicals sector involves witnessing and analysing the loading and discharge of oil and refinery products and tends to be commissioned by oil producers, refiners, blenders and traders. The Inspectorate Group's Oil and Petrochemicals inspection business primarily focuses on marine movements.

Laboratory testing is generally also performed to measure certain properties of a sample, such as the concentration of hydrocarbons or contaminants. Speed is a critical factor, so it is important that the Inspectorate Group has a network of laboratories and inspectors at points of custody transfer such as refineries. Moreover, because customers will often use the same inspection company at the origin and destination of a shipment, a global network is essential.

### *Metals and Minerals*

The Metals and Minerals division, which generated 18 per cent of the Inspectorate Group's revenues in 2004, carries out inspection and testing over an extensive product range, of which there are four principal areas – precious and non-ferrous metals, non-ferrous concentrates, steel, and energy and geochemical analysis. The Directors believe that the Group's Metals and Minerals business is the second largest by revenue in the world. Principally, the Group provides its inspection and testing services throughout the supply chain to traders, mining houses, smelters and exploration companies either on behalf of the party itself, or as an umpire as part of an arbitration process between disputing parties. In the case of umpire work, the Inspectorate Group may be named in the contract as the arbitrator in the event of a dispute between the parties.

The Directors believe that the Inspectorate Group is a market leader in the analysis of non-ferrous and precious metals through its umpire laboratory in Witham, UK and has recently constructed laboratories in Peru and Reno, US, which focus on geochemical analysis and cater mainly for the exploration market.

### *Agrocommodities*

This business segment, which accounted for 11 per cent of the Inspectorate Group's total revenues in 2004, involves the inspection and testing of bulk commodities, such as cereals, edible oils and fertilisers. Inspection involves assessing the quantity and quality of the commodities, and is generally less sophisticated than the Oil and Petrochemicals and the Metals and Minerals businesses. Principal customers tend to be Agrocommodities traders, producers and banks.

### *Food Safety*

The Inspectorate Group's Food Safety division carries out tests on food products to ascertain contaminants and to safeguard its customers against the health concerns of regulators and consumers. These services are increasingly required by importing and exporting governments and importing retailers, as customers strive to satisfy the increasing burden of regulation in this area. Moreover, recent public health scares around the safety of food have prompted more rigorous inspection of food products throughout the supply chain.

The Inspectorate Group's operations today focus on Latin America, a key food export market, and it currently has a presence in Ecuador, Chile, Venezuela, Columbia and Brazil.

## **Customers**

The Inspectorate Group has a broad customer base which includes oil majors, commodity traders, global food groups, resources companies, energy companies, mining groups, smelters, refiners and processors. The business also deals with import/export houses, ship owners, insurance underwriters, government departments and central banks. Current clients of the Inspectorate Group's business include:

- Oil and Petrochemicals – BP, Shell, Texaco, Total, ExxonMobil and Lukoil
  - Metals and Minerals – BHP Billiton, Xstrata, Johnson Matthey, Rio Tinto, Sempra Energy, Glencore and Trafigura
- Agrocommodities and Food Safety – Cargill Sugar, ConAgra, Bunge and Louis Dreyfus.

As is apparent from above, many of the Inspectorate Group's customers are global businesses, particularly in the Oil and Petrochemicals market. Several of the customers have long-standing relationships with the Group, although exclusive relationships are rare. Relationships are often built locally and, therefore, the Directors believe that good local management is paramount.

The Directors estimate that the Inspectorate Group's top ten customers in 2004 generated 29.9 per cent of continuing revenue, with the largest customer generating 6.4 per cent. Customer feedback collated by KPMG in conjunction with the sale of Inspectorate suggests that the Group provides a strong service to its customers across key purchasing criteria, especially accuracy and quality of service.

## **Expansion**

The Inspectorate Group has recently undergone substantial expansion and has upgraded many of its Oil and Petrochemicals laboratories (for example in Dubai and Fujairah). The Group has also established a significant number of new laboratories in the Oil and Petrochemicals and Metals and Minerals business (for example in the US, Russia, India and the Netherlands), and has set up three Food Safety laboratories in South America (including Ecuador, Chile and Venezuela). There has been a total capital investment of £18.8 million in the Inspectorate Group between 2002 and 2005, and the Directors believe that this will lead to growth of the business in the future.

In addition, the market for inspection and testing services is expected to grow, based on the following factors:

- global GDP is forecast to grow 3 per cent per annum between 2005 and 2009;
  - trade growth is forecast to grow by over 7 per cent. Per annum between 2005 and 2009, driven by increased globalisation;
  - increases in regulation adding to the requirements for inspection and testing (for example the proposed regulation of global carbon dioxide emissions under the Clean Air Act of the Kyoto Protocol);
- the increasing propensity of corporations and governments to outsource; and

- greater sophistication in analysis requiring increasingly sophisticated procedures.

A key goal of the Enlarged Group will be to oversee the profitable expansion of the business into the future.

### **Locations**

The Inspectorate Group operates out of 125 countries (including agency relationships) from a base of 94 laboratories. The Group employs more than 3,800 people, including approximately 1,800 inspectors and over 700 laboratory staff.

The Group is managed through four regional operations – the Americas, EMEAI (Europe, the Middle East, Africa and India), Eastern Europe (including Russia, Ukraine and the Caspian region) and Asia – and maintains a distinct business unit for the global Metals and Minerals umpire laboratory in Witham, UK. The regional operations are managed by Regional Directors who are accountable for the Profit and Loss account and all the markets within their geographic scope. Each region comprises areas or major countries with General Managers reporting to a Regional Director.

### **Competition**

As previously stated, the Inspectorate Group is one of only five key global suppliers in the inspection and testing industry, which is characterised by a high degree of fragmentation.

Of the five largest global suppliers of inspection and testing services, SGS S.A. (a large Swiss-quoted company with an extensive range of inspection and testing activities) and Intertek plc (a London Stock Exchange listed business with a core global business specialising in health, safety and environmental testing) have the greatest geographic and sector coverage. These two, plus Bureau Veritas (a French business which is 99.2 per cent. owned by Wendel Investissement, a Paris Bourse listed investment company) are the largest and best-known companies in the inspection and testing sector. SGS S.A.'s reported revenue in full year 2004 was £1.28 billion (generating net profit of £122 million) and Intertek plc's was £499.6 million (generating operating profit of £85.2 million).

The Inspectorate Group and Saybolt International B.V. (which is part of the NYSE-quoted Core Laboratories Inc. group) are smaller by revenue than SGS, Intertek and Bureau Veritas, but nonetheless provide global inspection and testing services. Saybolt Inc. is, however, principally an Oil and Petrochemicals sector business. Other suppliers of inspection and testing services include Cotecna S.A., which operates in the pre-shipment government inspection market, and Alfred H. Knight International Limited and Alex Stewart Limited, both operating in the Metals and Minerals sector.

The Directors believe that there are significant barriers to entry into the large scale inspection and testing markets, including:

- the need for inspection and testing companies to have a global presence and a strong, international brand;
- the requirement for capital-intensive and sophisticated testing systems used in the inspection and testing process; and
- the ability of larger operators to generate significant economies of scale.

## **Trading record of the Inspectorate Group**

### *General*

In 2004, the Inspectorate Group generated revenues of £98.4 million on its continuing business, but reported an adjusted EBITA loss of £0.2 million. This is calculated after excluding one-off costs of £1.5 million and discontinued operations. Whilst adjusted EBITDA in 2004 was £3.2 million, substantial capital expenditure of £8.3 million resulted in a negative operating cash flow for the year.

This financial performance contrasts significantly both with the results achieved by the Inspectorate Group in 1999, when the business was under the management of Mark Silver and Keith Tozzi (as Finance Director and Chief Executive of BSI respectively), and with the operating margins generated by its major competitors. The Directors therefore believe that the recent historical trading record of the Inspectorate Group does not truly reflect its potential future trading results.

### *The Americas*

The Americas, which in the 2004 financial year generated 50 per cent of the Inspectorate Group's global revenues (£48.0 million), have historically been dominated by the US Oil and Petrochemicals business. This operation represents the largest segment of the America's revenues, consistently over 70 per cent. The other key area for growth in 2004 was the US Metals and Minerals division, driven by the high international gold price.

### *Asia*

The Asian region generated revenues of £7.1 million in 2004, up from £6.2 million in 2003. It is dominated by its Metals and Minerals business, which is mainly based in China, and its Oil and Petrochemicals business, which is mainly based in Singapore. The profit before tax in 2004 was £0.7 million, an improvement from £0.3 million in 2003.

The Chinese operation is a 50 per cent joint venture, the agreement for which is due to run until May 2006. Negotiations concerning the terms of its renewal were underway between the management of the Inspectorate Group and the Chinese joint venture partner, but have currently been put on hold. The Directors believe that the Chinese market represents an area with significant growth potential.

### *Continental Europe, Middle East and Africa*

This region, which is dominated by its Oil and Petrochemicals business, generated £32.4 million of revenues in 2004, up from £29.8 million in 2003. This was predominantly due to a strong performance in Russia and the Ukraine. However, further growth is attributed to the acquisitions of NOIS, a Dutch company, and Cargo Survey, a Swedish company, in April 2004 and July 2004 respectively.

### *UK Metals and Minerals*

UK Metals and Minerals is operated as a separate business. Following a small decline in revenues in 2003, revenues stabilised in the 2004 financial year at £16.8 million.

Reported profits in this business also include a significant element of Group central costs, reflected in a loss before tax in 2004 of £4.4 million.

## **Turnaround strategy**

Inspicio was established to develop acquisition opportunities in the inspection and testing sectors, using the management's collective experience in mergers and acquisitions, capital management and fundraising, together with their general financial and operational expertise.

As stated above, the Directors believe that the Inspectorate Group can be returned to profitability. This belief is based on their own prior knowledge of the business and the performance of its competitors.

Following Completion, the Company will commence its turnaround strategy for the Inspectorate Group. The strategy comprises both revenue growth and cost control, and the key areas are:

1. core sector opportunities in Oil and Petrochemicals, Metals and Minerals and Food Safety;
2. more dynamic and de-centralised Group structure;
3. tighter cash management;
4. cost reductions; and
5. improved tax planning.

The Directors believe that during implementation of the turnaround strategy there will be a short term positive impact on the Inspectorate Group's business, although they expect that it will take at least 18 months before the benefits are fully realised.

## *Business growth*

In the Oil and Petrochemicals business, the Enlarged Group will look to benefit from the increased propensity of corporations to outsource non-core activities – only 5 per cent of laboratory services are outsourced at present – and from the increasing burden of regulation, particularly in the commodity sectors. The Directors believe that these factors may contribute to a potentially higher turnover and, therefore, profit level for the Inspectorate Group. The Directors believe that advances in new technologies will aid growth.

In the Metals and Minerals business, the Directors will seek to increase the Enlarged Group's output of umpire work, which tends to be higher margin than party inspection services. The Company will also review the Inspectorate Group's pricing policy.

In the Food Safety business, the Directors intend to exploit expansion possibilities primarily in South America and, subsequently, South East Asia. The Directors also intend to develop the business through what they perceive as the greater awareness by government and consumers of food safety issues and increasingly more demanding regulation.

## *Group structure*

The inspection and testing market may be global, but decisions are frequently made at a local level. Following Completion, the Company will operate the Inspectorate Group's business in a more de-centralised manner. The Directors believe that a more dynamic structure will incentivise the management team, which will in turn drive the business forward. In addition, the Directors intend to have fewer layers of management and run the business with a greater emphasis on a product, rather than a geographic, focus.

Following completion, Jeff Luesley will be appointed by Inspicio to assist with the restructuring of the Enlarged Group. Jeff was managing director of the Inspectorate Group from 1998 to 2001.

### *Cash management*

The Directors intend to impose greater cash management controls on the business going forward. In recent years, for example, capital expenditure has often significantly exceeded depreciation. Whilst the Company will benefit from the high level of expenditure carried out in the past (e.g. new laboratory facilities), going forward, capital expenditure will be maintained at an amount much closer to the depreciation charge. The Directors estimate that approximately £4 million capital expenditure, of which £2.5 million is for equipment replacement, is required per annum, although more may be required in 2006 to meet current commitments and upgrade IT systems. The Directors will also write off under-performing assets to reduce depreciation in the future.

### *Cost base*

The Directors recognise that cost savings will be required in the Inspectorate Group's business. The Directors believe that the business should be profitable on current levels of turnover, irrespective of future growth in revenues and margins. They believe that non-productive costs are too high; since 1998, turnover has risen by 32 per cent., but overheads have doubled. In addition, budgeted central costs are up by £1.5 million to £4.1 million for the current year. The Company will also review loss-making offices with a view to closing those offices which are not necessary to support the rest of the business.

### *Tax planning*

In 2003 and 2004, the Inspectorate Group incurred a tax charge notwithstanding that a loss was made at EBITA level. This is because taxes in profitable geographic jurisdictions could not be offset against taxable losses in unprofitable jurisdictions. The Directors intend to tackle this by both effective tax structuring at the time of the Acquisition and by reducing UK tax losses through the proper allocation of central charges and royalty fees to the non-UK trading businesses.

### **Current Trading**

During the six month period to 30 June 2005, the Inspectorate Group generated revenues from continuing operations of £50.0 million and an adjusted EBITA loss of £0.9 million (after excluding exceptional costs).

Performance during this period has been mixed, with the US Oil and Petrochemicals and Russia/Ukraine businesses showing strong revenue and profit growth, offset by below-budget performances elsewhere.

The Inspectorate Group has operations in certain of the southern states of the US and was therefore affected by Hurricanes Katrina and Rita. The Directors believe that, whilst Hurricanes Katrina and Rita had an impact on the business of the Inspectorate Group, the effects will not be significant in the medium term because much of the lost business will be regained by oil and petrochemical inspection work commissioned on imported fuel into the US.

### **Prospects for the Enlarged Group and future strategy**

The Directors believe that the prospects for the Enlarged Group are positive. In addition to the potential for the Inspectorate Group's operating margins to be significantly improved, market factors such as anticipated trade and GDP growth, the increased propensity of businesses to outsource, more sophisticated testing procedures and increased regulation are anticipated to lead to revenue growth within the industry. These factors should, in turn, provide sustainable earnings streams and significantly increased cash flow for the Enlarged Group.

It is the Directors' intention that the Enlarged Group is expanded over time, particularly through the development of the Inspectorate Group's Oil and Petrochemicals business via in-fill acquisitions, and the growth of the Metals and Minerals business, both organically and by strategic acquisition. The Directors also intend to develop the Group's food safety testing by strategic acquisitions in the US, UK and Asia. In particular, the Company will seek, partly through such complementary acquisitions, to realise the following benefits for the Enlarged Group:

- minimisation of overheads;
- improvement and streamlining of operational efficiencies;
- decentralisation of management; and
- development of strategic focus.

In this regard, the Company is actively seeking further acquisition opportunities.

### **Principal terms of the Acquisition**

Under the terms of the Acquisition Agreement, the Inspectorate Vendor has agreed to sell, and the Company has agreed to purchase, the entire issued share capital of Inspectorate for an aggregate consideration of approximately £52 million, subject to certain adjustments for working capital and cash. The consideration payable to the Inspectorate Vendor will be satisfied by the payment at Completion of £52 million in cash.

The Acquisition Agreement is conditional, *inter alia*, upon Second Admission. The anticipated date for Completion is the second Admission Date.

The Acquisition Agreement will not be completed until after Second Admission, but, on Second Admission, such completion will only be conditional upon payment by the company of the consideration moneys.

### **Directors**

Upon Second Admission, there will be no immediate change to the management structure of the Company, although recruitment of a Group Finance Director will commence forthwith.

Brief biographies of the current Directors are set out below:

#### *Chief Executive Officer and Director – Mark Silver (44)*

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.

*Non-Executive Chairman – Keith Tozzi (56)*

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.

*Non-Executive Director – Chris Slack (60)*

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 with 50 per cent external sales, and doubled profits in 18 months. He gained a wide experience in laboratory activities, including water, contaminated land, air quality, food and toys, as well as accreditation processes and IT systems. Following the acquisition of Southern Water, he worked on integration with Scottish Power, 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 (£1 billion global player in inspection and testing), 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.

*Non-Executive Director – Mark Watts (31)*

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 admissions to trading on AIM. Mark is a non-executive director of Zetar plc and Talarius plc.

## **Financing of the Acquisition and use of funds**

### *Details of the Placings*

The Company proposes to raise £52 million by issuing the VCT/EIS Placing Shares and the General Placing Shares, representing, in aggregate, approximately 94.5 per cent of the Enlarged Share Capital.

The proceeds of the Placings will be used to fund the Acquisition. The Debt Facilities will be used to satisfy the ongoing working capital requirements of the Enlarged Group (including the costs associated with the Acquisition).

Baird, on behalf of the Company, has conditionally agreed to place the Placing Shares at the Placing Price. The Placings will be fully underwritten by Baird and are conditional, *inter alia*, upon First Admission becoming effective not later than the First Admission Date in relation to

the VCT/EIS Placing and (in relation to the General Placing) Second Admission becoming effective not later than the Second Admission Date.

**Shareholders should be aware of the possibility that First Admission and/or Second Admission might occur, but that the Acquisition might not be completed. Investors in the VCT/EIS Placing should be aware that, whilst an application has been made to HMRC, the Directors cannot guarantee that EIS relief or VCT qualifying status will be available.**

The Placing Shares will, following allotment, rank *pari passu* in all respects with the existing issued Ordinary Shares and will have the right to receive all dividends and other distribution hereafter declared, made or paid in respect of the issued Ordinary Share capital of the Company.

Existing Shareholders are not selling any Ordinary Shares pursuant to the Placings and all of the Placing Shares are new Ordinary Shares that are being issued by the Company.

#### *Details of the Debt Facilities*

On, and subject to, Completion, the Debt Facilities totalling £20 million will be made available by HSBC Bank plc to the Company.

#### **Dividend policy**

The Directors will keep the dividend policy of the Company under review and commence the payment of dividends as soon as is appropriate and practicable. The declaration and payment of dividends by the Company, and their quantum, will be dependent upon the Enlarged Group's results, financial position, cash requirements, future prospects, profits available for distribution and other factors regarded by the Directors as relevant at the time.

#### **Share options**

The remuneration committee (consisting of Mark Watts and Keith Tozzi) has recommended to the Board that share option schemes should be introduced. Accordingly, the Board proposes to adopt the Employee Option Incentive Schemes which allow awards to be made to executive Directors of the Company and to other employees in the Enlarged Group. Awards will be at the discretion of the Board's remuneration committee.

Assuming the exercise of all options and warrants proposed to be granted at Second Admission, the number of issued Ordinary Shares will increase by 7.1 million Ordinary Shares, representing 11.4 per cent of the issued share capital of the Company on Second Admission as increased by the exercise of those options and warrants and assuming no further shares are issued.

#### **Warrants**

Subject to Second Admission, the Company has agreed to grant the Marwyn Warrant to Marwyn. The Marwyn Warrant will entitle Marwyn to subscribe for one million Ordinary Shares at the Placing Price. The Marwyn Warrant is subject to the same terms as to exercise as the options proposed to be granted on Second Admission under the Employee Share Incentive Schemes.

#### **Relationship with Marwyn**

Mark Watts is a director of Marwyn Investments Group Limited and associated subsidiaries including Marwyn Partners Limited, Marwyn Capital Limited and Marwyn Investment Management Limited. The Company will have financial advisory and office support contracts

with Marwyn Capital Limited and Marwyn Partners Limited respectively. Marwyn Ventures Fund I LLP, a shareholder in the Company, is managed on an arms length basis by Marwyn Investment Management Limited.

### **Corporate Governance**

Following Completion, the Board's audit committee, which will comprise Chris Slack and Keith Tozzi, will be chaired by Keith Tozzi. It will be responsible for ensuring that the financial performance, position and prospects of the Company are properly monitored and reported on and for meeting with the auditors and reviewing their reports relating to accounts and internal controls.

Following Completion, the Board's remuneration and nominations committee, which will comprise Mark Watts and Keith Tozzi, will be chaired by Keith Tozzi. The remuneration and nominations committee will review the performance of executive directors and set their remuneration and nominate potential members to the Board. The remuneration committee will also administer the Employee Share Incentive Schemes and be responsible for setting any performance targets in relation to the exercise of options granted under the Employee Share Incentive Schemes. On the occasions that the remuneration committee is due to consider Keith Tozzi's remuneration and benefits, Keith Tozzi will not take part in the discussions and the committee will, on those occasions, be chaired by Chris Slack.

The Company has adopted a model code for directors' dealings in securities of the Company which is appropriate for a Company quoted on AIM. The Directors will comply with Rule 21 of the AIM Rules relating to directors' dealings and will take all reasonable steps to ensure compliance by the Company's "applicable employees" (as defined in the AIM Rules).

### **Lock-in arrangements**

Each of the Directors has entered into lock-in arrangements with the Company and Baird in the Placing Agreement pursuant to which he has agreed (subject to the exceptions summarised below) (i) not to dispose of (and to use his reasonable endeavours to procure that no person connected to him will dispose of) any interest in Ordinary Shares or enter into any derivative-type transaction in relation to Ordinary Shares until publication of the results for the year ended 31 December 2006 (the "Restricted Period"); and (ii) for a period of 12 months following the expiry of the Restricted Period not to dispose of any Ordinary Shares or enter into any derivative-type transaction in relation to Ordinary Shares other than through Baird. The Directors (or persons connected to them) may, however, dispose of Ordinary Shares in certain limited circumstances including (i) to a connected person or family trust or beneficiary in the event of death and (ii) in the event of a takeover offer including a potential offer and a tender offer relating to the Company's shares (or to a *bona fide* potential offer or pursuant to an irrevocable undertaking to accept such an offer) or an intervening court order.

In addition, Marwyn has entered a lock-in agreement with Baird and the Company on substantially equivalent terms as the Directors.

### **CREST**

On 29 April 2005, CRESTCo granted permission for the Existing Shares to be admitted to CREST, the computerised share transfer and settlement system, and from such date Existing Shareholders have been able to hold their Ordinary Shares in certificated or uncertificated form. CREST allows shares and other securities to be held in electronic form rather than paper form, although Shareholders can continue dealing based on share certificates and stock transfer forms. For private investors who do not trade frequently, this latter course is likely to be more cost effective. It is intended that, following Second Admission, Shareholders will be able to deal in all issued Ordinary Shares through CREST.

For more information concerning CREST, Shareholders should contact their broker or, alternatively, CRESTCo at 33 Cannon Street, London EC4M 5SB.

### **Settlement and Dealing Arrangements**

Applications will be made for the Existing Shares, the VCT/EIS Placing Shares and the General Placing Shares to be admitted or re-admitted (as appropriate) to trading on AIM. It is expected that First Admission will become effective and that dealings in the VCT/EIS Placing Shares will commence at 8.00 a.m. on AIM on 12 October 2005. Application will already have been made for the Existing Shares and the VCT/EIS Placing Shares to be re-admitted, and for the General Placing Shares to be admitted to trading on AIM. It is expected that Second Admission will become effective and dealings in the Enlarged Share Capital will commence at 8.00 a.m. on AIM on 13 October 2005.

If the Acquisition and the Placings are not completed, the Existing Shares will continue to be traded on AIM.

No temporary documents of title will be issued. All the documents sent by or to a place, or at his direction, will be sent through the post at the place's risk. Pending despatch of definitive share certificates, instruments of transfer will be certified against the register of members of the Company.

The Ordinary Shares are eligible for CREST settlement. Accordingly, settlement of transactions in Existing Shares and the Placing Shares following Second Admission may take place within the CREST system if the relevant Shareholder so wishes.

CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

### **Change of Year End**

Inspicio has changed its accounting reference date to 31 December in line with the financial year end of Inspectorate.

### **Definitions**

All definitions in this announcement, unless otherwise stated have the same meaning as those in the Admission Document.