

13 September 2006

## Inspicio plc

### Interim results for the six months to 30 June 2006

Inspicio plc (“Inspicio” or the “Company”), the UK and international inspection and testing business, today reports results for the six months ended 30 June 2006.

#### Operational Highlights:

- Strong trading in Inspectorate (Inspicio’s largest operating subsidiary) and turnaround on track
- Successfully delivering strategy to build a leading international inspection and testing business
- Acquisition of Environmental Services Group Ltd (ESGL) for £16m
- Acquisition of remaining 25.1% of Mertcontrol Rt in Hungary and 51% stake in Acacus Inspection International Limited in Libya
- Further strengthening of the board and management team, including the appointment of Richard McBride as Finance Director, and the promotions of Jeff Luesley to Chairman of Inspectorate and ESGL, and Neil Hopkins to Managing Director of Inspectorate. Julie Dedman joined the Group as Managing Director of the Eclipse Scientific Group in August.

#### Financial Highlights:

- Group turnover at £67.8m (2005: £nil)
- Operating profit before amortisation of goodwill and exceptional items of £2.6m (2005: loss £0.1m) before charging share option costs of £0.2m (2005: £nil)
- Profit before interest and tax of £1.4m (2005: loss £0.1m)
- Operating margin in Inspectorate at 3% and progressing on target
- Full year expectations remain unchanged

Commenting on the results, Inspicio’s Chief Executive Officer, Mark Silver, said:

“We have seen strong trading at Inspectorate and are encouraged with the performance of the ESGL business. The turnaround of Inspectorate is on track and profit margins are progressing as expected. We remain on target to achieve improved operating margin for the full year.

We are also delivering on our strategy to consolidate the fragmented inspection and testing industry. We made further significant progress in this regard after the end of the period with the acquisition of the Eclipse Scientific Group. Our acquisitions can all leverage Inspectorate’s international network to create a company of global scale.

The first half financial performance provides a good platform to meet our 2006 financial expectations. Our principal focus now is on the businesses we currently have within the

Inspicio Group and we continue to be confident of delivering the financial targets we set during the acquisition of Inspectorate.”

**For further information please contact:**

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**Analyst presentation**

An analyst presentation will take place today at 9.30am at Brunswick, 16 Lincoln’s Inn Fields, WC2A 3ED.

## **Chairman's statement**

I am very pleased to report the interim financial statements for the Inspicio group for the six months to 30 June 2006. The results show strong trading in Inspectorate, the first operating group that we acquired in October 2005, and demonstrate that we are well on track with its turnaround strategy. We also acquired the Environmental Services Group Limited (ESGL), Inspicio's second major acquisition, on 2 May 2006.

Trading in the first half of the year has been strong. Turnover was £67.8m (2005: £nil), which included £7.6m (2005: £nil) from acquisitions, principally ESGL. Operating profit before amortisation of goodwill and exceptional items was £2.6m (2005 operating loss: £0.1m) before charging £0.2m (2005: £nil) in share option costs.

The first six months of 2006 have been very busy, as we have actively implemented the Group's strategy. We are already seeing improvements in Inspectorate's results, both in turnover growth and margin progression, and continuing this improvement remains our priority. We have also continued to build the Group's competencies and scale through acquisition, adding businesses that will be able to leverage Inspectorate's existing international infrastructure. In addition to the purchase of ESGL and in-fill acquisitions in Libya and Hungary, which were completed during the first half of the year, we have subsequently completed the strategically important acquisition of the Eclipse Scientific Group in August. Eclipse offers significant growth opportunities in the higher margin food testing sector. We also completed further in-fill acquisitions in Australia and Portugal.

The Group's businesses continue to be driven by increasing regulation, high barriers to entry and growing world trade, all of which underpin the Group's growth strategy.

## **Chief Executive's Review**

The results for the six months to 30 June 2006 comprise six months of trading from Inspectorate and two months of trading from ESGL. The comparative period to 30 June 2005 only comprised 12 weeks of operation and was before the first acquisition had been made. It therefore only includes central head office costs to 30 June 2005. In the notes to the financial statements, a pro forma profit and loss for Inspectorate has been included to show the results in the largest business within Inspicio.

All 2005 comparatives are nil for Inspectorate and ESGL as the six months to 30 June 2005 were prior to their acquisition.

## **Inspectorate**

Trading in Inspectorate has been strong in the first six months of the year. Turnover was £60.2m which represented growth of 20.2% on a pro forma basis for continuing operations. Operating profit was £1.8m at a margin of 3%. This level of operating margin

was as expected and Inspectorate is on track to deliver an improved margin for the full year.

In the six months to 30 June 2006, Inspectorate acquired the remaining 25.1% of Mertcontrol Rt in Hungary as well as a 51% stake in Acacus Inspection International Limited in Libya. Such in-fill acquisitions will be a continuing feature of the group's strategy. We will target the buy out of minority shareholders, oil and petroleum agents and continue to move closer to the mining and exploration clients in the metals and minerals sector.

## **Operational Review**

### **Americas**

The Americas generated revenue of £29.9m representing 49.6% of Inspectorate's revenue and growth of 20.3% over the same period in 2005. The US Oil & Petroleum division continued to perform well even though parts of the Gulf Coast region were still heavily affected by the impact from Hurricanes Katrina and Rita throughout the first half of the year. New contracts were won in US Metals and Minerals on the back of the investment in the Reno laboratory.

### **Asia**

The Asia business generated £4.3m of revenues representing 7.1% of Inspectorate's revenue and growth of 39.1% over the same period in 2005. The growth continues to come from the Singapore laboratory and Chinese coal and coke businesses. The laboratory upgrade in Singapore is on schedule and will significantly increase capacity.

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

The combined revenue of UK, Continental Europe, Middle East and Africa was £26.1m representing 43.3% of Inspectorate's revenue and growth of 18% over the same period in 2005. In UK Metals and Minerals the new management and sales team continue to gain increased business from traders as well as new customers.

In Eastern Europe revenues were flat compared with the same period in 2005 as the year began with difficult trading conditions in Russia mainly due to unprecedented bad weather conditions. The shortfalls associated with this period are gradually being recovered. The EMEA business continues to be driven by the Indian and Middle East operations and further investment is still being made in these high growth areas. Holland is improving, albeit at a slower pace than anticipated.

After 30 June 2006, and therefore not included in the financial results for the first half of the year, we continued with our strategy of making in-fill acquisitions. In August we acquired Renton Laboratories Pty Ltd in Perth, Australia. Trading as Standard and Reference Laboratories, this provides high precision analysis of metals and mineral products to clients including major global mining companies. In the same month we acquired a majority stake in our Portuguese agent, Inspeccoes, Peritagens E Controllo LDA ("IPEC"), which provides petroleum surveys, agri-commodities and metals and

minerals testing as well as services in relation to cargo insurance claims, and on hire and off hire surveys. These acquisitions strengthen both our commercial position and geographic reach according to the aims of our in-fill strategy.

## **Environmental Services Group**

On 2 May, the Group acquired the entire share capital of Environmental Services Group Limited from Mowlem plc (now owned by Carillion plc) for a total consideration of £16.0m. This was funded by a cash placing of 3.75m ordinary shares and an increase in the Company's debt facilities of £10m. ESG's main businesses include Soil Mechanics and TES Bretby. Soil Mechanics is the UK's leading ground investigation contractor providing drilling, sampling, testing and advice for geotechnical, groundwater, geological, environmental, contaminated land and marine survey purposes. TES Bretby is one of the UK's largest mineral and waste testing laboratories. By using Inspectorate's worldwide infrastructure, there is significant scope for international growth in ESG's businesses.

The six months to 30 June 2006 include two months of ESG's results. Turnover was £7.5m and operating profit before amortisation and exceptional items was £0.4m at an operating margin of 5.7%.

Progress has been made in identifying and developing the synergies between the Inspectorate and ESG businesses, especially in coal inspection and testing.

The financial performance of ESG for the two months post acquisition has been in line with expectations. Prospects for ESG for the remainder of this financial year and into 2007 are encouraging, particularly in the Soil Mechanics and TES Bretby business lines, with a strong forward order book from existing term contracts and framework agreements underpinning future sales growth. The key market drivers include increased environmental regulation and compliance, climate change (affecting, amongst other things, flood defences and slope stability) and UK energy shortfall as well as global energy demand.

## **Financial Results**

### **Overview**

Turnover for the six months to 30 June 2006 was £67.8m (2005: £nil). Of this, £60.1m (2005: £nil) was generated from continuing operations in Inspectorate and £7.6m (£nil) was generated from acquisitions including £7.5m from ESG.

In the six months to 30 June 2006, there were exceptional charges of £0.2m (2005: £nil) in respect of the restructuring of the management of ESG and of Inspectorate within Europe. Further restructuring charges are expected in the second half of the year.

Earnings before exceptional items, interest, tax, depreciation and amortisation (EBITDA) were £4.7m (2005: loss £0.1m). After depreciation, EBITA was £2.6m (2005: loss £0.1m) before charging £0.2m (2005: £nil) for share options. Profit before interest and tax was £1.4m (2005: loss £0.1m) and pre-tax profit was £0.9m (2005: loss £0.1m).

Unaudited information has been included for Inspectorate for the six-month period to 30 June 2006 and compared to pro forma results for the same period ended 30 June 2005. Turnover was £60.2m (2005 pro forma: £50.0m). Acquisitions in 2006 comprised £0.1m (2005: £nil) of turnover. The organic growth rate was 20.2%. Operating profit before exceptional items, fair value adjustments and transitional items was £1.8m (2005 pro forma loss: £2.3m) at an operating margin of 3.0%.

Inspectorate's business is cyclical. Turnover and operating profit tend to be higher in the second half of the year than the first. This is a result of the stockpiling of oil during the autumn months in advance of winter use.

### **Interest and tax**

Net interest cost amounted to £0.5m and was covered 4.9 times by EBITA.

Management believe that the long-term tax rate of the Group will be around 35% (before goodwill and share option charges). Our aim is to achieve the long-term tax rate of 35% during the second half of 2007. In the six months to 30 June 2006, tax has been charged at 45% (before goodwill and share option charges) (2005: nil), which is the estimated rate for the 12 months to 2006.

### **EPS**

Basic earnings per share for the six months to 30 June 2006 were a loss of 0.4p (2005: loss 5.4p). Adjusted earnings per share (calculated on profit before the amortisation of goodwill and exceptional items) were 1.5p (2005: loss 5.4p).

### **Cash and financing**

Net debt at 30 June 2006 was £17.1m (2005: £nil) compared to £3.4m at 31 December 2005.

In the six-month period to 30 June 2006, there was an operating cash inflow of £3.0m (2005 outflow £0.1m). Servicing of finance represented a cash outflow of £0.8m (2005: £nil), tax paid was £1.2m (2005: £nil) and capital expenditure, net of disposals, was £0.8m (2005: £nil).

£18.5m was spent on acquisitions (2005: £nil), including £16.0m on ESG and £2.2m as the final payment to BSI for the acquisition of Inspectorate. During the period, 3.75m shares were issued, raising £4.3m net of costs, and borrowings increased by £18.4m.

## **IFRS**

As Inspicio is quoted on AIM, it is not required to adopt International Financial Reporting Standards (“IFRS”) until its 2007 year end. The attached financial statements have therefore been prepared under UK GAAP. In 2005, however, the Group adopted early certain recent UK accounting standards which form part of the ongoing process of convergence between UK GAAP and IFRS. In particular, under FRS 20, the financial statements do include a share-based payment charge on a basis consistent with IFRS 2 and, under FRS 26, derivative financial instruments have been measured at fair value.

The share based payment charge against operating profit included in the six months to 30 June 2006 was £0.2 million.

## **Dividends**

The Board is not recommending a dividend for the six months to 30 June 2006.

## **Post balance sheet events**

On 11 August 2006, the Group acquired the entire share capital of Eclipse Scientific Group Ltd for a total consideration of £47.0m with a possible deferred consideration of up to £3.0m dependent on the growth of profits over the next three years. The acquisition was funded by the cash placing of 25.1m ordinary shares, the issue of 2.1m ordinary shares to the vendors and an increase in debt facilities of £22.0m. Eclipse is a leading food testing business in the UK with the opportunity to grow globally using Inspectorate’s international expertise and infrastructure.

On 24 August 2006, the Group acquired the entire share capital of Renton Laboratories Pty Ltd, a metals and minerals testing company in Australia for a consideration of AU\$2.6m cash and 424,950 ordinary shares issued to the vendors.

On 4 August 2006, the Group acquired a majority stake in our Portuguese agent, Inspeccoes, Peritagens E Controlo LDA (“IPEC”), for €20,000 in cash.

The cash consideration for these in-fill acquisitions was funded by the cash placing of 1,818,182 ordinary shares.

## **Strategy**

Inspicio has undergone a significant transformation since its admission to AIM on 29 April 2005. We have delivered upon our strategy of acquiring and managing companies and businesses in the UK inspection, testing and performance conformity market through the acquisitions of Inspectorate, ESGL and Eclipse along with a number of smaller acquisitions.

The Board's focus is currently on developing these existing businesses and enhancing shareholder value.

Our strategy of acquiring businesses that are capable of growth by utilising the infrastructure of Inspectorate is well demonstrated by the integration of ESGL into the Group. A joint initiative on Coal Testing has been launched between Inspectorate and TES Brethby and plans are being developed to move Soil Mechanics into the Middle East before the end of the year. Elsewhere in ESGL we have announced and implemented the integration of the Global food testing business into Eclipse.

Eclipse, which we acquired in August, will operate as a standalone business within Inspicio, but again will look to utilise the international infrastructure of Inspectorate.

### **Current trading and outlook**

Overall we are pleased with progress to date. In particular, the turnaround of the Inspectorate business is on track to deliver the expectations we set at the time of its acquisition. We continue to look for in-fill acquisitions in certain areas to enhance the value of this business.

We have seen strong sales in the first half of the year, organic growth being around 20% year on year.

We continue to believe that the testing and inspection market will grow into the future. Increasing legislation and regulation, the growth in world trade and the barriers to entry arising from the reputation of our businesses continue to drive demand.

**Mark Silver**  
**Chief Executive Officer**

## Consolidated Profit and Loss Account

For the six months ended 30 June 2006

	Note	6 months ended 30 June 2006 (Unaudited) £'000	12 weeks ended 30 June 2005 (Unaudited) £'000	38 weeks ended 31 December 2005 (Audited) £'000
<b>Turnover</b>				
Continuing operations		60,148	-	26,236
Acquisitions		7,629	-	-
	2	67,777	-	26,236
Cost of sales		(46,821)	-	(18,297)
<b>Gross profit</b>		<b>20,956</b>	<b>-</b>	<b>7,939</b>
Administrative expenses before amortisation and exceptional items		(18,564)	(125)	(8,044)
<b>Operating profit before amortisation and exceptional items</b>		<b>2,392</b>	<b>(125)</b>	<b>(105)</b>
Administrative expenses – amortisation of goodwill		(879)	-	(367)
Administrative expenses – exceptional items	3	(170)	-	(3,816)
<b>Total administrative expenses</b>		<b>(19,613)</b>	<b>(125)</b>	<b>(12,227)</b>
<b>Group operating profit</b>				
Continuing		988	(125)	(4,288)
Acquisitions		355	-	-
		1,343	(125)	(4,288)
Share of operating profit of joint venture		31	-	-
<b>Profit/(loss) on ordinary activities before interest and taxation</b>		<b>1,374</b>	<b>(125)</b>	<b>(4,288)</b>
Interest receivable and similar income		76	11	182
Interest payable and similar charges		(531)	-	(391)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>919</b>	<b>(114)</b>	<b>(4,497)</b>
Tax on profit on ordinary activities	4	(909)	-	8
<b>Profit/(loss) on ordinary activities after taxation</b>		<b>10</b>	<b>(114)</b>	<b>(4,489)</b>
Equity minority interests		(216)	-	(60)
<b>Loss for the period</b>		<b>(206)</b>	<b>(114)</b>	<b>(4,549)</b>
<b>Basic earnings per share (pence)</b>	6	<b>(0.4)</b>	<b>(5.4)</b>	<b>(25.4)</b>
<b>Adjusted earnings per share (pence)</b>	6	<b>1.5</b>	<b>(5.4)</b>	<b>(2.0)</b>

## Consolidated Statement of Total Recognised Gains and Losses

For the six months ended 30 June 2006

	6 months ended 30 June 2006 (Unaudited) £'000	12 weeks ended 30 June 2005 (Unaudited) £'000	38 weeks ended 31 December 2005 (Audited) £'000
<b>Loss for the period</b>	(206)	(114)	(4,549)
Foreign currency exchange (losses)/gains offset in reserves	(3,707)	-	781
<b>Total recognised loss for the period</b>	<b>(3,913)</b>	<b>(114)</b>	<b>(3,768)</b>

## Reconciliation of Movement in Shareholders Funds

For the six months ended 30 June 2006

	6 months to 30 June 2006 (Unaudited) £'000	12 weeks ended 30 June 2005 (Unaudited) £'000	38 weeks ended 31 December 2005 (Audited) £'000
<b>Opening balance</b>	<b>48,443</b>	-	-
Loss for the financial period	(206)	(114)	(4,549)
Issue of ordinary shares	375	300	5,500
Premium on ordinary share issue	4,106	2,700	49,500
Share issue costs	(134)	(290)	(3,179)
Foreign exchange (losses)/gains	(3,707)	-	781
Options compensation charge	221	-	390
<b>Closing balance</b>	<b>49,098</b>	<b>2,596</b>	<b>48,443</b>

## Consolidated Balance Sheet

As at 30 June 2006

	At 30 June 2006 (Unaudited) £'000	At 30 June 2005 (Unaudited) £'000	At 31 December 2005 (Audited) £'000
<b>Fixed assets</b>			
Intangible assets	39,992	-	35,023
Tangible assets	21,874	-	21,000
Investments	294	-	-
	<b>62,160</b>	<b>-</b>	<b>56,023</b>
<b>Current assets</b>			
Financial asset: Derivative financial instruments	224	-	108
Debtors	41,127	6	25,535
Cash at bank and in hand	8,045	2,655	4,140
	<b>49,396</b>	<b>2,661</b>	<b>29,783</b>
<b>Creditors:</b>			
Amounts falling due within one year	(29,413)	(65)	(22,673)
Financial liability: Derivative financial instruments	-	-	(110)
<b>Net current assets</b>	<b>19,983</b>	<b>2,596</b>	<b>7,000</b>
<b>Total assets less current liabilities</b>	<b>82,143</b>	<b>2,596</b>	<b>63,023</b>
<b>Creditors:</b>			
Amounts falling due after more than one year	(25,198)	-	(7,164)
Provisions for liabilities and charges	(5,903)	-	(5,346)
<b>Net assets</b>	<b>51,042</b>	<b>2,596</b>	<b>50,513</b>
<b>Capital and reserves</b>			
Called up share capital	5,875	2,710	5,500
Share premium account	50,293	-	46,321
Profit and loss account	(4,144)	(114)	(4,159)
Other reserves	(2,926)	-	781
Equity shareholders' funds	<b>49,098</b>	<b>2,596</b>	<b>48,443</b>
Minority interest	1,944	-	2,070
<b>Capital employed</b>	<b>51,042</b>	<b>2,596</b>	<b>50,513</b>

## Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Note	6 months to 30 June 2006 (Unaudited) £'000	12 weeks to 30 June 2005 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000's
<b>Net cash inflow/(outflow) from operating activities</b>	7	3,048	(66)	(5,587)
<b>Returns on investments and servicing of finance</b>				
Net interest (paid)/received		(448)	11	(199)
Issue costs of bank loans		(342)	-	(173)
Net cash inflow from returns on investments and servicing of finance		(790)	11	(372)
<b>Taxation</b>		(1,164)	-	290
<b>Capital expenditure</b>				
Purchase of tangible fixed assets		(1,465)	-	(1,685)
Proceeds from the sale of fixed assets		687	-	-
Net cash outflow for capital expenditure		(778)	-	(1,685)
<b>Acquisitions</b>				
Purchase of subsidiary undertakings		(18,512)	-	(52,000)
Acquisition costs		(741)	-	(1,518)
Cash acquired with subsidiary undertakings		733	-	5,722
Net cash outflow for acquisitions		(18,520)	-	(47,796)
Net cash outflow before the use of liquid resourcing and financing		(18,204)	(55)	(55,150)
<b>Financing</b>				
Issue of ordinary share capital		4,481	3,000	55,000
Expenses of share issue		(134)	(290)	(3,019)
Issue of preference share capital		-	-	13
Redemption of preference shares		-	-	(13)
Capital element of finance lease repayments		(3)	-	(10)
Increase in borrowings		18,358	-	6,957
Net cash inflow from financing		22,702	2,710	58,928
<b>Increase in cash</b>		<b>4,498</b>	<b>2,655</b>	<b>3,778</b>

## Reconciliation of net cash flow to movement in net debt

	6 months to 30 June 2006 (Unaudited) £'000	12 weeks to 30 June 2005 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000's
<b>Increase in cash in the period</b>	<b>4,498</b>	<b>2,655</b>	<b>3,778</b>
Borrowings acquired with subsidiary	-	-	(376)
Movement in borrowings	(18,355)	-	(6,774)
<b>Change in funds resulting from cash flows</b>	<b>(13,857)</b>	<b>2,655</b>	<b>(3,372)</b>
Non-cash items	308	-	(54)
Exchange adjustments	(225)	-	51
<b>Movement in net debt in the period</b>	<b>(13,774)</b>	<b>2,655</b>	<b>(3,375)</b>
Net funds at the beginning of the period	(3,375)	-	-
<b>Net debt at the end of the period</b>	<b>(17,149)</b>	<b>2,655</b>	<b>(3,375)</b>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of accounting

The consolidated interim financial information has 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 accounting policies are the same as those set out in the financial statements of the group for the 38 weeks ended 31 December 2005.

The above financial information does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The financial information for the 38 weeks ended 31 December 2005 is based on the statutory accounts for the 38 weeks ended 31 December 2005. Those accounts, upon which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

### 2. Segmental analysis

For the six months ended 30 June 2006

<b>Sales by Origin</b>			
	<b>6 months ended 30 June 2006 (Unaudited) £'000</b>	<b>12 weeks ended 30 June 2005 (Unaudited) £'000</b>	<b>38 weeks ended 31 December 2005 (Audited) £'000</b>
<b>Geographical segment</b>			
United Kingdom, Continental Europe, Middle East and Africa	33,603	-	11,844
Americas	29,894	-	12,710
Asia	4,280	-	1,682
<b>Turnover</b>	<b>67,777</b>	<b>-</b>	<b>26,236</b>

### 3. Exceptional items

The exceptional items represent the cost of reorganising the management structure on the acquisition of the Environmental Services Group Ltd (£129,000) and the Inspectorate Group (£41,000)

### 4. Taxation

Taxation has been charged at the estimated full year rate of 45% (2005: nil) on profit before the amortisation of goodwill and share option charges.

### 5. Dividend

The directors do not propose the payment of a dividend for the period.

## 6. Earnings per share

	6 months to 30 June 2006 (Unaudited) £'000	12 weeks to 30 June 2005 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Retained loss for basic EPS	(206)	(114)	(4,549)
Exceptional items	170	-	3,816
Goodwill amortisation	879	-	367
Adjusted retained profit	<u>843</u>	<u>(114)</u>	<u>(366)</u>
Weighted average number of shares for basic and adjusted EPS	56,222,376	2,093,851	17,930,498
Basic loss per share	(0.4)p	(5.4)p	(25.4)p
Adjusted earnings (loss) per share	1.5p	(5.4)p	(2.0)p

There are no dilutive share options

## 7. Reconciliation of operating profit to operating cash flow

	6 months to 30 June 2006 (Unaudited) £'000	12 weeks to 30 June 2005 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000's
Group operating profit/(loss)	1,343	(125)	(4,288)
Goodwill amortisation	879	-	367
Depreciation on tangible fixed assets	2,291	-	1,001
(Profit)/loss on disposal of fixed assets	(221)	-	83
Impairment of fixed assets	-	-	1,092
Movement in fair value of financial instruments	(163)	-	35
Fair value charge for options and warrants	221	-	150
Foreign exchange movement on inter-company	818	-	(349)
Foreign exchange movement on borrowings	(57)	-	-
Decrease in debtors	(2,985)	(6)	(1,498)
Decrease/(increase) in creditors	646	65	(2,274)
Increase in provisions	276	-	94
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,048</b>	<b>(66)</b>	<b>(5,587)</b>

## 8. 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 31 Dec 2005	(7,097)	4,140	(311)	(107)	(3,375)
Cash flow	(18,358)	3,454	311	3	(14,590)
Acquired with subsidiary	-	733	-	-	733
Non-cash items	311	-	-	(3)	308
Exchange differences	57	(282)	-	-	(225)
<b>At 30 June 2006</b>	<b>(25,087)</b>	<b>8,045</b>	<b>-</b>	<b>(107)</b>	<b>(17,149)</b>

## 9. Acquisitions:

### Environmental Services Group Limited

The Environmental Services Group Limited was acquired on 2 May 2006 and the provisional fair value of its assets and liabilities are given in the following table:

	Book value £'000	Revaluation £'000	Consistency of accounting policy £'000	Other £'000	Provisional fair value £'000
Tangible fixed assets	3,778	(365)			3,413
Investments in Joint Venture	263				263
Intangible fixed assets					-
Stock	2,016		(2,016)		-
Debtors	13,046			(150)	12,896
Creditors	(7,301)				(7,301)
Finance Leases	(86)				(86)
Provisions	(825)				(825)
Taxation					-
- Current	174			(174)	-
- Deferred	94			(94)	-
Cash	733				733
<b>Net assets acquired</b>	<b>11,892</b>	<b>(365)</b>	<b>(2,016)</b>	<b>(418)</b>	<b>9,093</b>
<b>Cost of acquisition</b>					
Consideration – cash					16,000
Acquisition expenses					97
<b>Goodwill (provisional)</b>					<b>7,864</b>

The adjustments include revaluing assets under the course of construction, the alignment of accounting policies concerning valuation of stock, and revised estimates on the recoverability of certain trade debtors and balances.

In its last financial year to 31 December 2005, Environmental Services Group made a loss after tax and minority interests of £626,000. For the period since that date to acquisition, the Environmental Services Group Limited's management accounts show:

	£'000
Turnover	15,491
Operating loss before exceptional items	(292)
Exceptional items	(825)
Operating loss after exceptional items	(1,117)
Interest expense	(276)
Loss before tax	(1,393)
Tax	-
Profit attributable to shareholders	(1,393)

Exceptional items represent provisions for dilapidations on leasehold properties (£350,000), and contractual claims (£475,000).

## 10. Pro forma results for Inspectorate business

### Pro forma financial information

Presented below is a pro forma statement of operating results which compares the performance of Inspectorate for the six months to 30 June 2006 with the same period to 30 June 2005. This pro forma statement of operating results is unaudited and for illustrative purposes only.

The pro forma statement of operating results has been prepared using Inspicio plc's accounting policies, on the following basis:

Businesses that were part of the Inspectorate group but which were retained by the former owner have been excluded from the results in both years.

The results have been prepared from the consolidated management accounts of the Inspectorate group adjusted on the following basis:

- (i) amortisation of goodwill that had been pushed down from the former owner has been excluded.
- (ii) Items identified in 2005 that originate prior to 2005 have been allocated to the year to which they relate.

	6 months ended 30 June 2006 (Unaudited) £'000	6 months ended 30 June 2005 (Unaudited) £'000
Turnover	60,248	50,037
Cost of sales	(40,073)	(35,137)
<b>Gross profit</b>	<b>20,175</b>	<b>14,900</b>
Administrative expenses before exceptional items, fair value adjustments and transitional items	(18,367)	(17,238)
<b>Operating profit/(loss) before exceptional items, fair value adjustments and transitional items</b>	<b>1,808</b>	<b>(2,338)</b>
Administrative expenses - exceptional items	(41)	(1,357)
Administrative expenses - fair value adjustments and transitional items	-	(674)
Total administrative expenses	(18,408)	(19,269)
<b>Operating profit/(loss)</b>	<b>1,767</b>	<b>(4,369)</b>

Exceptional items in 2005 relate to the disposal of assets and the reorganization of management structure on acquisition.

## 11. Interim report

The interim financial information was approved by the Board of Directors on 12 September 2006.

This report will be sent to shareholders and copies are available from the Company's registered office.