

Inspicio plc

Preliminary results for the twelve months to 31 December 2006

Inspicio plc (“Inspicio” or the “Company”), the UK and international inspection and testing business, today reports results for the twelve months ended 31 December 2006.

Financial Highlights:

- Group turnover £161.9m (2005: £26.2m)
- Divisional turnover: Inspectorate: £126.1m, ESG: £28.1m, Eclipse: £7.7m
- Revenue growth in Inspectorate of 16.9 per cent at comparable exchange rates (15.3 per cent at actual rates)
- Inspectorate’s operating profit before exceptional items £5.2m (2005: loss £0.6m) at a margin of 4.1 per cent (2005: loss 0.6 per cent)
- Group earnings before exceptional items, interest, tax, depreciation and amortisation at £13.1m (2005: £0.9m)
- Group pre-tax profit £0.5m (2005: loss £4.5m)

Operational Highlights:

- Strong performance in all divisions, with the Group delivering against its plans
- Turnaround at Inspectorate on track; strong trading delivered improved sales and margin growth
- Successful acquisitions of ESG (May) and Eclipse (August) adding depth and scale to global reach
- Good progress in integrating acquired businesses and leveraging operational synergies
- Business driven by increased regulation, high barriers to entry and growing world trade

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

“We have delivered robust results for Inspicio’s first full year of operations. We have achieved strong growth in turnover across the businesses and an improvement in operating margins at Inspectorate, which is on track to achieve its margin target of 8 per cent in the second half of 2007.

“The fundamental drivers of the business remain strong and we are positive on the outlook for the Group in 2007. We continue to pursue our stated strategy of turning around the Inspectorate business, and leveraging Inspectorate’s global infrastructure to expand all areas of our businesses assessing further acquisition opportunities as they arise. We are delighted with progress to date and confident that Inspicio will perform in line with our expectations in 2007.”

For further information please contact:

Mark Silver, Chief Executive Officer, Inspicio plc Richard McBride, Finance Director, Inspicio plc	020 7246 6210
Chris Blundell, Brunswick Anisha Patel, Brunswick	020 7404 5959

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 delighted to report Inspicio's financial results for its first full year of operations. It has been a very busy period in which the turnaround of Inspectorate has continued on track and the Group has made significant strategic acquisitions of the Environmental Services Group ("ESG") in May and the Eclipse Scientific Group ("Eclipse") in August which have added to the depth and strength of Inspicio's global offering. We are very pleased with both these acquisitions. Their results have been strong and their integration into the Group has progressed well.

Turnover for the Group for the 12 months to 31 December 2006 was £161.9m (2005: £26.2m) and earnings including the joint venture before exceptional items, amortisation, interest and tax were £7.6m, compared to a loss of £0.5m in the 38 weeks to 31 December 2005. Group profit before interest and tax was £3.2m (2005 : loss of £4.3m).

In Inspectorate, trading has been particularly strong throughout 2006. Inspectorate's principal operational focus is in the commodity testing and inspection sector and the company enjoys a strong brand and reputation for excellent client service. As a result Inspectorate's revenue growth for the 12 months to 31 December 2006 was 16.9 percent at constant exchange rates. Operating profit before exceptional items was £5.2m at a margin of 4.1 per cent. This compares to a loss of £0.6m in the 12 months to 31 December 2005 on a proforma basis. Inspectorate is on track to achieve 8 per cent operating margins in the second half of 2007.

On 2 May 2006 Inspicio acquired the Environmental Services Group from Carillion plc for £16.0m. ESG includes several businesses in the soil, environmental and building testing sector providing laboratory-based testing and consulting services. On 11 August 2006, the Group acquired the Eclipse Scientific Group, a leading UK food testing business, for £47.0m. Both groups have traded well since their acquisition.

In addition to ESG and Eclipse, the Group also completed several small in-fill acquisitions, the total consideration for which was £4.9m (including expected deferred payments), which added £1.1m of turnover in 2006.

The Group's strategy is to buy out minority interests and agents in the Inspectorate network, thus strengthening our control over the use of the Group's brand as well as over the testing and inspection processes and standards. During 2006 a majority stake was acquired in our Libyan agent and the minority interest in Hungary was acquired outright. Inspectorate also acquired an agent in Portugal and expanded its Metals & Minerals capabilities in Australia through the acquisition of Renton Laboratory Pty Ltd ("Standard & Reference Laboratories").

Two small infill acquisitions were also completed in Eclipse following its acquisition by Inspicio, which strengthened its service offerings and geographic food testing capabilities.

The market continues to be driven by increased regulation, high barriers to entry and growing world trade. With Inspectorate's global infrastructure, Inspicio is very well positioned to expand all areas of its businesses and to capitalise on the strength of underlying demand for its services. We are delighted with progress to date and are confident of future prospects.

Chief Executive's Review

The results for the year to 31 December 2006 include 12 months of Inspectorate, eight months of ESG and 20 weeks of Eclipse. The comparative figures for the year to 31 December 2005 include head office costs from the date of incorporation in April and the trading results of Inspectorate from its acquisition on 13 October 2005. Unaudited proforma information for Inspectorate has also been given for the 12 month comparative period in 2005 to demonstrate the improved performance in the underlying business.

Inspectorate

Inspectorate's results for 2006 were strong in both sales and margin improvement. Compared to the proforma results for the 12 months to 31 December 2005, sales grew 15.3 per cent, or 16.9 per cent at comparable exchange rates. Excluding acquisitions, sales growth was 14.3 per cent. In the Oil & Petroleum business, an active trading market generated robust revenues in trader, blending and refining activities. In the Metals & Minerals business, high gold and other precious metal prices increased analysis requirements and encouraged significant mining and geochemical exploration.

The operating margin improved from a proforma loss (0.6 per cent) in 2005 to 4.1 per cent in 2006. This was achieved by reducing costs, undertaking a larger proportion of higher margin testing work, a more advantageous pricing regime, and the focus of management on financial targets in a decentralised structure. Inspectorate is on track to achieve the margin target of 8 per cent in the second half of 2007 as outlined by Inspicio's management on its acquisition in October 2005.

Americas

The Americas generated revenue of £62.2m, representing 49.3 per cent of Inspectorate's revenue and growth of 16.2 per cent over proforma 2005. The US Oil & Petroleum division continued to be the largest revenue generator in this region. Demand for testing of bio diesel grew during the year to support increased bio diesel blending. Although bio diesel is a relatively small part of current revenues, Inspectorate has focused on gaining a lead position in this area and, as a result, won several contracts in the Houston, New York, Tampa, New Orleans, San Francisco and Seattle markets.

Ultra Low Sulphur legislation enacted in the fourth quarter of the year increased the demand for testing of sulphur levels in diesel oil and 10 laboratories have been equipped with new low level sulphur detectors.

New premises in Los Angeles doubled capacity in the year and attracted significant testing business as a result. A new division, servicing the liquefied natural gas sector, was set up in the year and a new contract with a major US pipeline operator was won to perform outsourced testing in the Gulf Coast and Eastern Seaboard.

In South America, revenues increased across a variety of platforms. New laboratory facilities were built in Venezuela which enabled the business to expand into water testing and in Argentina, revenues were boosted with a contract to test air, noise and water for a major mining consortium. The Colombian operation had a successful year following improvements to its service capabilities especially in the coal sector. Our minerals laboratory in Mexico was also expanded in response to growth in the geochemicals market.

Asia

Asia generated £11.4m of revenue representing 9.1 per cent of Inspectorate's revenue and growth of 34.2 per cent over proforma 2005.

Growth in this region has principally been driven by strong demand in China, India and Singapore. Penetration into the Chinese market continues to be successful, especially within our coal and coke business and we are developing plans to continue expanding Inspectorate's laboratory capabilities. Our laboratory facilities in Singapore have been enhanced and now include full bio diesel testing capabilities. Singapore has also benefited from outsourced work from the Government of Singapore and services a high proportion of its petroleum blending activities.

The acquisition of Standard & Reference Laboratories in Australia has given the group a stronger position in the Metals & Minerals geochemicals market and is being successfully integrated into the Group.

EMEA

The combined revenues of the EMEA region were £52.4m representing 41.5 per cent of Inspectorate's revenue and growth of 11.6 per cent year on year.

In the UK, trading improved through the year in the Metals & Minerals business. Our Witham laboratory is internationally renowned, particularly for the testing of precious metals. Commodity trading activity was very buoyant in 2006 and the division was successful in winning back business previously lost. Sales increased 20.7 per cent. In the Oil & Petroleum division, laboratory testing increased after the Buncefield oil depot fire.

The Inspectorate network was expanded by the purchase of an agent in Portugal and a majority stake in our Libyan agent and the outright purchase of the minority interest in Hungary. Operations commenced in Ghana and laboratory capabilities were enhanced in Nigeria, India and Saudi Arabia.

In Eastern Europe, our Russian business recovered from unprecedented winter conditions at the beginning of the year to exceed management expectations over the whole year. The Baltic operations were restructured to encourage opportunities across the region while the Swiss co-ordination centre was reduced in size to return more autonomy to individual businesses. Inspectorate's strong position in Oil & Petroleum and fertiliser inspections in Eastern Europe was further consolidated during the year.

Metals & Minerals

During the year, the Metals & Minerals division was reorganised into a more global structure. The new Reno laboratory facility was completed and is now fully functional. New preparatory laboratories were opened in Colombia and Mexico to increase efficiency of the flow of samples into the Reno and Peru facilities. The acquisition of Standard & Reference Laboratories and the continued success of Witham meant that our Metals & Minerals business had an encouraging year.

Inspectorate continues to be driven by strong commodity volume movements and the globalisation of world trade, as manufacturing and the production of goods continue to migrate to developing countries. We see outsourcing opportunities within the operation, and the strength of the Inspectorate brand and breadth of our network means that we believe we are well positioned for the foreseeable future.

Environmental Services Group

Inspicio acquired the Environmental Services Group (ESG) on 2 May 2006 and therefore eight months of its results are included in the 2006 consolidated results. Sales for the period were £28.1m and operating profit including the joint venture was £1.9m, in line with our expectations.

In Soil Mechanics, ESG's largest business and a recognised market leader in UK ground investigation, the market was extremely buoyant, driven by infrastructure improvements in the UK and Ireland (both road and rail), house building projects and the development of the Lower Lea Valley and Thames Gateway in preparation for the 2012 Olympics. Soil Mechanics' service capability has been expanded during the year to include materials testing (soil, rock and concrete) and by collaboration with research facilities, it established innovative in situ and laboratory techniques including geothermal and stress testing. In the latter part of the year plans were developed for Soil Mechanics to expand its geographical coverage in 2007, leveraging Inspectorate's global infrastructure with particular focus on the UAE and India.

TES Bretby, ESG's second largest business, is one of the UK's biggest testing laboratories and has performed encouragingly. The business tests a wide variety of products, including coal, minerals, soils and gases. It provides an extensive range of environmental monitoring services to the waste management sector such as landfill site and also on-site monitoring of personnel and workplace exposure such as vibration, dust, noise and toxic substances.

The Group's Environmental Chemistry testing capability was expanded in the second half of 2006 to increase sample volume throughputs to enable faster turnaround of analysed information. TES established new coal testing facilities at Immingham to service increased imports of coal and initiatives are underway to capitalise on Inspectorate's overseas network to expand TES's coal testing services into the international market.

Registration of an ESG company in India was initiated at the end of 2006 to identify opportunities to provide environmental services to the Indian market. The establishment of a joint Inspectorate/ESG water hygiene service for the UAE was formulated in the second half of 2006 for implementation in 2007.

The loss making Global food testing division was closed within ESG during the second half of the year. Global losses included in the results for the year were approximately £0.5 million.

Eclipse

Eclipse Scientific Group was acquired on 11 August 2006 and its performance from acquisition to 31 December 2006 has generated sales of £7.7m and operating profit of £1.7m, in line with management expectations.

Eclipse is one of the UK's leading food testing businesses and has grown through a combination of organic growth and acquisitions. In addition to food testing, Eclipse also provides water and pharmaceutical testing services and has a laboratory supply company which has given the Group stronger purchasing power.

The market in which Eclipse operates has seen good growth during the year and sample volumes have risen by around 25 per cent in 2006. Substantial investment is taking place in customer relationship management software to focus on improving the delivery of services to clients.

Eclipse has made two small acquisitions in the period since acquisition. The total consideration for these acquisitions was £0.4m. Promar was acquired in October 2006 and offers an opportunity to build on our strong relationships in the dairy sector, where test volumes have more than doubled in the year. Envirolab was purchased in December 2006 and has increased the national coverage we enjoy in Ireland.

The Voelcker business within Eclipse was merged with CLA, our ESG environment consultancy, in the latter part of 2006, to provide integrated geotechnical and environmental consultancy services associated with assessment, utilisation and remediation of land.

The food testing market continues to be driven by increased regulation and food movements, boosted by one-off food scares. The trend to outsource food testing by the major food producers also represents an opportunity to increase sales and use laboratory assets more efficiently. Eclipse currently operates one outsourced laboratory and other opportunities to expand the Group's capabilities in this area are being actively pursued.

We are formulating plans to internationalise the Eclipse business either organically or by focused acquisition and intend to affect such plans in 2007.

Financial Results

Overview

Turnover for the 12 months to 31 December 2006 was £161.9m (2005 : £26.2m). Of this, £125.0m was generated from continuing operations in Inspectorate, and £36.9m was generated from acquisitions, being £28.1m from ESG, £7.7m from Eclipse and £1.1m from the small infill acquisitions in Inspectorate.

Inspectorate's turnover grew by 15.3 per cent at actual exchange rates and 16.9 per cent at comparable exchange rates. The main foreign currency affecting Inspectorate's results is the US dollar which weakened against the pound from an average of \$1.82 in 2005 to \$1.84 in 2006. The year end rate against the pound was US\$1.96.

Earnings before exceptional items, interest, tax, depreciation and amortisation (EBITDA) were £13.1m (2005: £0.9m). After depreciation, EBITA was £8.3m (2005: nil) before charging £0.7m (2005: £0.1m) for share option charges. Profit before exceptional items, interest and tax was £4.7m (2005: loss £0.5m) and pre-tax profit after exceptionals was £0.5m (2005: loss £4.5m).

There were £1.5m of exceptional operating charges (2005 : £3.8m) principally relating to corporate acquisition activity and the restructuring and laboratory closure costs, including the closure of the loss making Global food testing division in ESG and redundancy costs related to the acquisition of ESG.

Unaudited information has been included for Inspectorate for the 12 month period to 31 December 2006 and compared to proforma results for the same period ended 31 December 2005. Turnover was £126.1m (2005 proforma: £109.3m) and operating profit before exceptional items, fair value adjustments and transitional items was £5.2m (2005 pro-forma loss: £0.6m) at an operating margin of 4.1 per cent. This was in line with management's expectations at the time of the acquisition of Inspectorate in October 2005.

Interest and Tax

Net interest charges before exceptional items amounted to £2.2m and were covered 5.9 times by EBITDA. £0.5m of bank arrangement fees for facilities arranged prior to the acquisition of Eclipse were written off as exceptional interest charges.

In the 12 months to 31 December 2006, tax has been charged at 60.5 per cent (before exceptional items, goodwill and share option charges) (2005 : nil). This includes the accounting effect of offsetting post acquisition tax liabilities against deferred tax assets set up in the acquired balance sheets of ESG and Eclipse, rather than against losses included in other parts of the group in the post acquisition period. This treatment has no impact on cash payments and excluding this effect, the tax rate was 43.5 per cent (before exceptional items, goodwill and share option charges).

The tax rate is higher than the UK statutory rate of 30 per cent due to the mix of profits generated in higher rate tax jurisdictions, especially the US, and the effect of unrelieved losses principally in the UK. Initiatives are underway to reduce the Group's effective tax rate. Management is targeting a medium-term Group tax rate of around 35 per cent (before amortisation of goodwill and share option charges).

EPS

Basic and diluted loss per share for the 12 months to 31 December 2006 was a loss of 4.5p (2005: loss 25.4p). Adjusted basic and diluted earnings per share (calculated on profit before amortisation of goodwill and exceptional items) were 1.8p (2005: loss 2.0p). At the long run normalised tax rate of 35 per cent, the EPS was 4.4p.

Cash and Financing

Net debt at 31 December 2006 was £37.8m compared to £3.4m at 31 December 2005.

In the 12 month period to 31 December 2006, there was an operating cash inflow of £13.2m (2005 outflow £5.6m). Returns on investment and servicing of finance, including the cost of raising debt, represented a cash outflow of £3.1m (2005 : £0.4m). Tax paid was £3.1m (2005 : tax received: £0.3m) and capital expenditure, net of disposals, was £5.1m (2005 : £1.7m).

£58.8m was spent on acquisitions and investments (2005 : £47.8m), net of £1.6m of cash acquired in the acquisitions (2005 : £5.7m). Cash outflows on the acquisitions of ESG and Eclipse were £17.1m and £37.7m respectively. During the period, 33.3m shares were issued, raising £32.6m net of costs, and borrowings increased by £41.6m.

IFRS

As Inspicio is quoted on AIM, it is not required to adopt International Financial Reporting Standards (IFRS) until it reports its 2007 results. The attached results have therefore been prepared under UK GAAP. However, the Group has adopted early certain UK accounting standards which form part of the on-going process of convergence between UK GAAP and IFRS. In particular, under FRS 26, derivative financial instruments have been measured at fair value.

Under FRS 20 (equivalent to IFRS 2), the share based payment charge against operating profit included in the 12 months to 31 December 2006 was £0.6m (2005 : £0.1m).

The conversion to IFRS accounting standards is currently underway. The most significant change will be in the allocation of some of the Group's goodwill to separate intangible assets which will be amortised over their useful economic lives. The remaining goodwill will be held on the balance sheet, subject to annual impairment tests rather than amortisation charges.

Dividends

In line with its stated strategy, the Board is not recommending a dividend for the 12 months to 31 December 2006. Group dividend policy remains under review and the Board will consider initiating a dividend payment when the circumstances of the business allow.

Strategy

The Board continues to believe that the fragmented inspection and testing market provides opportunities to consolidate inspection and testing businesses through acquisition and that, with the development of a global infrastructure, the Group 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 include regulatory and legislative changes driving the need for new and tougher testing regimes; buyers and sellers of goods and services seeking independent third party inspection; multi-national 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 Board believes that the Company is successfully delivering on its strategy and will continue to pursue acquisition opportunities as they arise.

Outlook

We are very pleased with the turnaround of Inspectorate and we remain on track to achieve the margin target of 8 per cent in the second half of 2007, as anticipated at the time of the acquisition.

We will continue to integrate the acquired businesses and leverage operational synergies and cross-selling opportunities. We will also continue to assess further acquisition opportunities as they arise, according to our stated strategy.

The drivers of our business remain strong. Trading in the early months of 2007 has continued as expected. Despite some weakness of the US dollar, we remain confident that Inspicio will continue to perform in line with management expectations in 2007.

Consolidated Profit and Loss Account
For the year ended 31 December 2006

	Year ended 31 December 2006 Before exceptional items (Unaudited) £'000	Year ended 31 December 2006 Exceptional items (see note 3) (Unaudited) £'000	Year ended 31 December 2006 Total (Unaudited) £'000	38 weeks ended 31 December 2005 Total (Audited) £'000
Note				
Turnover (including share of joint ventures)				
Continuing	125,018	-	125,018	26,236
Acquisitions	37,584	-	37,584	-
	162,602	-	162,602	26,236
Less : Share of turnover of joint ventures				
Acquisitions	(751)	-	(751)	-
Turnover	2	161,851	-	161,851
				26,236
Cost of sales	(112,370)	-	(112,370)	(18,297)
Gross profit	49,481	-	49,481	7,939
Administrative expenses before amortisation				
Continuing	(38,229)	(1,091)	(39,320)	(11,860)
Acquisition	(3,808)	(407)	(4,215)	-
Operating profit before amortisation	7,444	(1,498)	5,946	(3,921)
Amortisation of goodwill - continuing	(1,640)	-	(1,640)	(367)
Amortisation of goodwill - acquisition	(1,252)	-	(1,252)	-
Total administrative expenses	(44,929)	(1,498)	(46,427)	(12,227)
Group operating profit/(loss)				
Continuing	2,368	(1,091)	1,277	(4,288)
Acquisitions	2,184	(407)	1,777	-
	4,552	(1,498)	3,054	(4,288)
Share of operating profit of joint venture	189	-	189	-
Profit/(loss) on ordinary activities before interest and taxation	2	4,741	(1,498)	3,243
				(4,288)
Interest receivable and similar income	227	-	227	182
Interest payable and similar charges	(2,454)	(468)	(2,922)	(391)
Profit/(loss) on ordinary activities before taxation	2,514	(1,966)	548	(4,497)
Tax on profit on ordinary activities	4	(3,693)	521	(3,172)
(Loss) on ordinary activities after taxation	(1,179)	(1,445)	(2,624)	(4,489)
Equity minority interests	(462)	-	(462)	(60)
(Loss) for the period	(1,641)	(1,445)	(3,086)	(4,549)
Basic and diluted loss per share (pence)	6		(4.5p)	(25.4p)

**Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 December 2006**

	Year ended 31 December 2006 (Unaudited) £'000	38 weeks ended 31 December 2005 (Audited) £'000
Loss for the period	(3,086)	(4,549)
Gain in value of investments	384	-
Foreign currency exchange (losses)/gains offset in reserves	(6,442)	781
Total recognised loss for the period	(9,144)	(3,768)

Consolidated Balance Sheet
As at 31 December 2006

	Note	At 31 December 2006 (Unaudited) £'000	At 31 December 2005 (Audited) £'000
Fixed assets			
Intangible assets	10	88,176	35,023
Tangible assets		27,029	21,000
Investments		2,052	-
		117,257	56,023
Current assets			
Stocks		98	-
Financial asset: Derivative financial instruments		84	108
Debtors		44,976	25,535
Restricted cash		9,724	-
Cash at bank and in hand		10,698	4,140
		65,580	29,783
Creditors: amounts falling due within one year			
Financial liability: Derivative financial instrument		(19)	(110)
Amounts falling due within one year		(61,431)	(22,673)
Net current assets		4,130	7,000
Total assets less current liabilities		121,387	63,023
Creditors:			
Amounts falling due after more than one year		(40,096)	(7,164)
Provisions for liabilities and charges		(4,150)	(5,346)
Net assets		77,141	50,513
Capital and reserves			
Called up share capital		8,827	5,500
Share premium account		75,856	46,321
Merger reserve		2,571	-
Profit and loss account		(6,681)	(4,159)
Other reserves		(5,277)	781
Shareholders' funds	7	75,296	48,443
Minority interest		1,845	2,070
Capital employed		77,141	50,513

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	Note	Year ended 31 December 2006 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Net cash inflow/(outflow) from operating activities	8	13,233	(5,587)
Returns on investments and servicing of finance			
Net interest paid		(1,826)	(199)
Issue costs of bank loans		(1,004)	(173)
Dividend paid to minority interests		(306)	-
Net cash inflow from returns on investments and servicing of finance		(3,136)	(372)
Taxation		(3,059)	290
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,919)	(1,685)
Purchase of investment		(1,188)	-
Proceeds from the sale of fixed assets		811	-
Net cash outflow for capital expenditure and financial investment		(6,296)	(1,685)
Acquisitions			
Purchase of subsidiary undertakings		(56,724)	(52,000)
Acquisition costs		(2,512)	(1,518)
Cash acquired with subsidiary undertakings		1,639	5,722
Net cash outflow for acquisitions		(57,597)	(47,796)
Net cash outflow before the use of liquid resourcing and financing		(56,855)	(55,150)
Financing			
Issue of ordinary share capital		34,133	55,000
Expenses of share issue		(1,687)	(3,019)
Issue of preference share capital		-	13
Increase in restricted cash balance		(9,724)	-
Redemption of preference shares		-	(13)
Capital element of finance lease repayments		(142)	(10)
Increase in borrowings		41,613	6,957
Net cash inflow from financing		64,193	58,928
Increase in cash		7,338	3,778

Reconciliation of net cash flow to movement in net debt

	Note	Year ended 31 December 2006 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Increase in cash in the period		7,338	3,778
Borrowings acquired with subsidiary undertakings		(365)	(376)
Movement in restricted cash		9,724	-
Movement in borrowings		(41,471)	(6,774)
Change in funds resulting from cash flow		(24,774)	(3,372)
Non-cash items		(9,333)	(54)
Exchange adjustments		(279)	51
Movement in net debt in the period		(34,386)	(3,375)
Net debt at the beginning of the period		(3,375)	-
Net debt at the end of the period	9	(37,761)	(3,375)

NOTES TO THE FINANCIAL INFORMATION

1. Basis of accounting

The financial information set out in this announcement does not constitute statutory accounts for the year ended 31 December 2006 or the period ended 31 December 2005, but is derived from those accounts. The statutory accounts for the period ended 31 December 2005, on which the report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985, have been delivered to the registrar, while the statutory accounts for the year ended 31 December 2006 will be delivered to the registrar following the company's Annual General Meeting.

The results have been prepared on the basis of accounting policies adopted in the statutory accounts for the period ended 31 December 2005.

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. As reported in the prior period the Group accounts under 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'.

2. Segmental analysis

The analysis by geographical area of the Group's sales, profit before interest and taxation is set out below:

By geographic origin	Year ended 31 December 2006		38 week period to 31 December 2005	
	Turnover (Unaudited) £'000	Profit/(loss) before interest and tax (Unaudited) £'000	Turnover (Audited) £'000	Profit/(loss) before interest and tax (Audited) £'000
Europe, Middle East and Africa (including group costs)	88,220	(3,586)	11,393	(4,194)
Americas	62,200	5,401	12,710	(98)
Asia	11,431	1,428	2,133	4
	161,851	3,243	26,236	(4,288)

3. Exceptional items

The exceptional items include restructuring charges related to the closure of the Global food division within Environmental Services Group, the restructuring of the Inspectorate business and corporate acquisition activity.

The exceptional charge to bank interest costs relates to capitalised bank fees in respect of loan facilities prior to the existing arrangements.

4. Taxation

Taxation has been charged at a rate of 60.5% (2005 - nil) on profit before exceptionals, amortisation of goodwill and share option charges.

5. Dividend

The Directors do not propose the payment of a dividend for the year ended 31 December 2006 (38 weeks to 31 December 2005 - £nil)

6. Earnings per share

	Year ended 31 December 2006 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Retained loss for basic EPS	(3,086)	(4,549)
Exceptional items (net of tax)	1,445	3,816
Goodwill amortisation	2,892	367
Adjusted retained profit	1,251	(366)
Weighted average number of shares for basic EPS	69,021,446	17,930,498
Weighted average number of shares including dilutive share options	69,271,869	17,961,249
Basic and diluted loss per share	(4.5p)	(25.4p)
Adjusted basic and diluted earnings/(loss) per share before exceptional items and amortisation	1.8p	(2.0p)

7. Reconciliation of movements in shareholders' funds

	Year ended 31 December 2006 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Loss for the financial period	(3,086)	(4,549)
Issue of ordinary shares	3,327	5,500
Premium on new shares issued	31,062	49,500
Merger reserve	2,571	-
Share issue costs	(1,527)	(3,179)
Foreign exchange (losses)/gains	(6,442)	781
Gain in value of investments	384	-
Options and warrants compensation charge	564	390
Movement in shareholders' funds in period	26,853	48,443
Shareholders' funds at the beginning of the period	48,443	-
Equity shareholders' funds at 31 December	75,296	48,443

8. Reconciliation of operating profit/(loss) to operating cash flow

	Year ended 31 December 2006 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Group operating profit/(loss)	3,054	(4,288)
Goodwill amortisation	2,892	367
Depreciation on tangible fixed assets	5,439	1,001
Loss on disposal of fixed assets	19	83
Impairment of fixed assets	-	1,092
Movement in fair value of financial instruments	(89)	35
Fair value charge for options and warrants	564	150
Foreign exchange movement on inter-company	155	(349)
Decrease in stocks	53	-
(Increase) in debtors	(2,030)	(1,498)
Increase/(decrease) in creditors	4,289	(2,274)
(Decrease)/increase in provisions	(113)	94
Net cash inflow/(outflow) from operating activities	13,233	(5,587)

9. Analysis of net (debt)/funds

	Loans £'000s	Cash at bank and in hand £'000s	Restricted cash £000's	Bank overdrafts £000's	Finance leases £000's	Loan notes £000's	Net (debt)/ funds £000's
As at 31 Dec 2005	(7,097)	4,140	-	(311)	(107)	-	(3,375)
Cash flow	(41,613)	5,388	9,724	311	142	-	(26,048)
Acquired with subsidiary	-	1,639	-	-	(365)	-	1,274
Non-cash items	391	-	-	-	-	(9,724)	(9,333)
Exchange differences	190	(469)	-	-	-	-	(279)
As at 31 December 2006	(48,129)	10,698	9,724	-	(330)	(9,724)	(37,761)

10. Goodwill

	Year ended 31 December 2006 (Unaudited) £'000	38 weeks to 31 December 2005 (Audited) £'000
Opening net book value	35,023	-
Goodwill arising on acquisition of Inspectorate	-	34,864
Goodwill arising on acquisition of ESG	8,723	-
Goodwill arising on acquisition of Eclipse Scientific	47,026	-
Goodwill arising on other in-fill acquisitions	4,505	-
Foreign exchange movements	(3,866)	526
Fair value adjustments arising	(343)	-
Amortisation charge	(2,892)	(367)
Net book value as at 31 December	88,176	35,023

11. 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 year ended 31 December 2006 with the same period to 31 December 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 basis that businesses that were part of the Inspectorate group but which were retained by the former owner have been excluded from the results in 2005.

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

- (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; and
- (iii) in 2005 depreciation has been split between cost of sales and administration expenses on a consistent basis with 2006 results

	Year to 31 December 2006 (Unaudited) £'000	Year to 31 December 2005 (Unaudited) £'000
Turnover	126,053	109,340
Cost of sales	(83,771)	(76,753)
Gross profit	42,282	32,587
Administrative expenses before exceptional items, fair value adjustments and transitional items	(37,072)	(33,189)
Operating profit/(loss) before exceptional items, fair value adjustments and transitional items	5,210	(602)
Administrative expenses – exceptional items	(245)	(6,282)
Administrative expenses – fair value adjustments and transitional items	-	(1,911)
Total administrative expenses	(37,317)	(41,382)
Operating profit/(loss)	4,965	(8,795)

The operating profit/(loss) is stated after charging:

	Year ended 31 December 2006 (Unaudited) £'000	Year ended 31 December 2005 (Unaudited) £'000
Depreciation	4,658	4,390