

27 March 2006

Inspicio plc
(“Inspicio” or “the Company”)

Final results for the 38 weeks ended 31 December 2005
(including the Inspectorate Group for the period 14 October to 31 December 2005)

Inspicio plc, which was admitted to AIM on 29 April 2005 with the purpose of acquiring businesses in the UK and international testing, inspection and performance conformity businesses today reports results for the 38 weeks ended 31 December 2005.

Operational highlights

- Admitted to AIM in April 2005 as an acquisition vehicle
- Completed the acquisition of Inspectorate for £52.0 million in October 2005, giving a global platform for future complementary acquisitive growth
- Turnaround of Inspectorate Group progressing on plan
- Appointment of Jeff Luesley as Managing Director of Inspectorate
- The first two months of 2006 show a positive contribution (first two months of 2005 – unaudited loss of £1.2 million)

Financial highlights

Results for the 38 weeks to 31 December 2005

- Turnover £26.2 million
- Loss before exceptional costs, interest, tax and goodwill amortisation of £0.1 million
- Exceptional reorganisation costs of £3.8 million
- Operating loss after exceptional costs £4.3 million

Proforma results for the 12 months to 31 December 2005 - Inspectorate

Inspectorate is currently Inspicio’s sole operating business and became part of the Group in October 2005. To make comparison more meaningful for shareholders, we have provided at the end of this report a pro forma statement of operating results which compares the performance of Inspectorate for the 12 months to 31 December 2005 with the same period to 31 December 2004. The following are extracted from the unaudited pro forma information:

- Turnover £109.3 million (2004 - £98.4 million)
- Earnings before exceptional items, interest, taxation, depreciation and goodwill amortisation, “EBITDA” £1.9 million (2004 - £1.0 million)
- Pre exceptional operating loss £(0.6) million (2004 - £(2.0) million)

Commenting on the results Mark Silver, CEO of Inspicio plc, said:

“Following the acquisition of Inspectorate, the business has met our expectations and the turnaround strategy is on track.

The market continues to grow and we are seeing the benefit of that growth through a satisfactory start to the current financial year.

We remain confident of delivering the turnaround of the business and our stated aim remains an operating margin (EBITA) for Inspicio of 4% in 2006 and 8% in the second half of 2007.”

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Results for the 38 weeks ended 31 December 2005

Chairman's Statement

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

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

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

We are continuing to search for new, complementary acquisitions in the inspection and testing market and we have recently acquired the remaining shares in our Hungarian company previously held by our minority partner. Our markets continue to exhibit strong growth and the underlying dynamics remain favourable. Trading in both January and February was ahead of our expectations.

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

Keith Tozzi
Non Executive Chairman

27 March 2006

Chief Executive's Review

Acquisition of Inspectorate

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

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

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

Turnaround

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

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

Group structure

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

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

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

Business growth

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

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

Cash management

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

Cost base

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

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

Tax planning

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

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

IT

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

Operational review

Inspectorate operations

Inspectorate is currently managed on a geographic basis and this is reflected in the commentary below. All revenues are based on the pro forma unaudited information.

Americas

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

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

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

Asia

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

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

UK Metals and Minerals

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

Eastern Europe

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

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

EMEA (including India)

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

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

Financial results

Overview

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

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

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

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

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

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

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

Cash and financing

Net borrowings at 31 December 2005 were £5.4 million, consisting of bank loans and amounts due for the purchase of the Inspectorate group of £9.2 million, less cash within the Group (net of overdrafts) of £3.8 million.

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

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

IFRS

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

GAAP and IFRS (see note 2 to the attached financial information). This means that, 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. Other aspects of these new UK accounting standards will be disclosed in the Group's Annual Report.

The share based payment charge against operating profit included in the 2005 accounts was £0.2 million. The charge will increase to £0.4 million in each of 2006 and 2007.

Dividend

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

Strategy and acquisitions

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

The Board continues to look for EPS enhancing acquisitions, taking advantage of the long term

consolidation opportunities in this fragmented yet fast growing market.

Outlook

Following the acquisition of Inspectorate, the business has yielded no surprises and the turnaround is on track. The sector continues to grow and we are feeling the benefit of that market growth through a very satisfactory start to the current financial year. For the first two months of 2006 the Inspicio Group is profitable and above budget (EBITA), compared to a £1.2 million operating loss (EBITA) in the first two months of 2005 for the Inspectorate Group alone.

Mark Silver
Chief Executive Officer

27 March 2006

Consolidated Profit and Loss account for the 38 weeks Ended 31 December 2005

	Note	Pre exceptionals 38 weeks ended 1 December 2005 (unaudited) £' 000	Exceptional items 38 weeks ended 31 December 2005 (unaudited) £' 000	Total 38 weeks ended 31 December 2005 (unaudited) £' 000
Turnover				
Continuing operations		-	-	-
Acquisitions		26,236	-	26,236
Cost of sales		(18,297)	-	(18,297)
Gross profit		7,939	-	7,939
Administrative expenses				
Continuing operations		(680)	(991)	(1,671)
Acquisitions		(7,731)	(2,825)	(10,556)
		(8,411)	(3,816)	(12,227)
Operating profit / (loss)				
Continuing operations		(680)	(991)	(1,671)
Acquisitions		208	(2,825)	(2,617)
Operating loss		(472)	(3,816)	(4,288)
Net interest payable		(209)	-	(209)
Loss on ordinary activities before taxation	8	(681)	(3,816)	(4,497)
Taxation		8	-	8
Loss on ordinary activities after taxation		(673)	(3,816)	(4,489)
Equity minority interests		(60)	-	(60)
Loss for the period		(733)	(3,816)	(4,549)
Basic and diluted loss per ordinary share	3			(25.4)p

Statement of total recognised gains and losses for the 38 weeks ended 31 December 2005

	38 weeks ended 31 December 2005 (unaudited) £' 000
Loss for the period	(4,549)
Foreign currency exchange gain	781
Total recognised gains and losses	(3,768)

Consolidated Balance Sheet as at 31 December 2005

	Note	31 December 2005 (unaudited) £'000
Fixed assets		
Intangible assets		35,023
Tangible assets		21,000
		56,023
Current assets		
Financial asset – Derivative financial instruments		108
Debtors		25,535
Cash in bank and in hand		4,140
		29,783
Creditors: amounts falling due within one year		(22,673)
Financial liability – Derivative financial instruments		(110)
Net current assets		7,000
Total assets less current liabilities		63,023
Creditors: amounts falling due after more than one year		(7,164)
Provisions for liabilities and charges		(5,346)
Net assets		50,513
Capital and reserves		
Called up share capital		5,500
Share premium account		46,321
Profit and loss account		(4,159)
Other reserves		781
Equity shareholders' funds	4	48,443
Minority interests		2,070
Capital employed		50,513

Consolidated Cash Flow Statement for the 38 weeks Ended 31 December 2005

	Note	2005 (unaudited) £'000
Net cash outflow from operating activities	5	(5,711)
Returns on investments and servicing of finance		
Interest received		149
Interest paid		(348)
Issue costs of bank loans		(173)
Net cash outflow from returns on investments and servicing of finance		(372)
Taxation		290
Capital expenditure		
Purchase of tangible fixed assets		(1,561)
Net cash outflow for capital expenditure		(1,561)
Acquisitions		
Purchase of subsidiary undertakings		(52,000)
Acquisition costs		(1,518)
Cash acquired with subsidiary undertakings		5,722
Net cash outflow for acquisitions		(47,796)
Net cash outflow before financing		(55,150)
Financing		
Issue of ordinary share capital		55,000
Expenses of share issue		(3,019)
Issue of preference share capital		13
Redemption of preference shares		(13)
Capital element of finance lease repayments	6	(10)
Increase in borrowings		6,957
Net cash inflow from financing		58,928
Increase in cash		3,778

Reconciliation of net cash flow to movement in net debt

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

Notes to the Financial Information for the 38 weeks Ended 31 December 2005

1. Basis of preparation

With effect from 13 October 2005, BSI Investments BV, the holding company of Inspectorate, became a wholly owned subsidiary of Inspicio plc (the "Company") which was incorporated on 5 April 2005 and has an accounting reference date of 31 December. The financial information contained herein for the 38 week period ended 31 December 2005 consolidates that of the Company and its acquisition of Inspectorate. Therefore the results of Inspectorate are included only for the 10 weeks from 14 October to 31 December 2005.

The unaudited results for the 38 weeks ended 31 December 2005 have been prepared in accordance with UK generally accepted accounting principles.

The accounting policies applied are set out below and will be used in the Group's Annual Report and Accounts for the 38 weeks ended 31 December 2005.

The financial information for the 38 weeks ended 31 December 2005 is unaudited and does not constitute statutory accounts within the meaning of the Companies Act 1985.

2. Accounting policies

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

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

Consolidation

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

Turnover

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

Cost of sales

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

Foreign currencies

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments – derivatives

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

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

Debt instruments

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

Equity instruments

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

Bad debt allowance

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

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements that transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

Tangible fixed assets

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

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

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

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

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

Goodwill

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

Impairment of fixed assets

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

Provisions

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

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

Pension costs

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

Consumables

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

Deferred taxation

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

Share-based payments

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

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

Employer's taxes on share options

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

Employee share ownership plan

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

Related party transactions

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

3. Earnings per share

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

There are no dilutive potential ordinary shares.

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

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

4. Reconciliation of movements in shareholders' funds

	Note	2005 Unaudited £'000
Loss for the financial period		(4,549)
Issue of ordinary share capital		55,000
Share issue costs		(3,179)
Foreign exchange gains		781
Options and warrants compensation charge		390
Movement in equity shareholders' funds in period		48,443
Equity shareholders' funds at beginning of period		-
Equity shareholders' funds at 31 December 2005		48,443

5. Reconciliation of operating profit to net cash outflow from operating activities

	Note	2005 Unaudited £'000
Group operating loss		(4,288)
Goodwill amortisation		367
Depreciation on tangible fixed assets		1,001
Loss on disposal of fixed assets		83
Impairment of fixed assets		1,092
Fair value of financials instruments		35
Fair value charge for options and warrants		150
Foreign exchange movement on inter-company		(349)
Increase in debtors		(1,622)
Decrease in creditors		(2,274)
Increase in provisions		94
Net cash outflow from operating activities		(5,711)

6. Analysis of changes in net debt

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

7. Acquisition

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

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

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

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

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

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

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

8. Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	2005 unaudited £'000
Depreciation	1,001
Amortisation of goodwill	367
Options and warrants compensation charge	151

Pro forma financial information

Presented below is a pro forma statement of operating results which compares the performance of Inspectorate for the 12 months to 31 December 2005 with the same period to 31 December 2004. 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.

	2005 unaudited £'000	2004 unaudited £'000
Turnover	109,340	98,440
Cost of sales	(73,639)	(63,709)
Gross profit	35,701	34,731
Administrative expenses		
Pre-exceptional items	(36,303)	(36,711)
Fair value adjustments and transitional items	(1,911)	(391)
Exceptional items	(6,282)	(1,037)
	(44,496)	(38,139)
Operating loss	(8,795)	(3,408)

The operating loss is stated after charging:

	2005 Unaudited £'000	2004 Unaudited £'000
Depreciation	4,390	3,480