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INSPECTORATE PLC

Board and senior management

P G Simonis*	*Chairman*
W J Luesley	*Chief Executive*
R Mort	*Financial Director*
R N McConnell*	
J H Lollar*	
J Mussellwhite*+	

* Non-executive director
\+ Alternate director

D J Lappage	*Company Secretary*

Senior executives by function

N Hopkins	*Director; Oil and Petroleum*
D R Wright	*Director; Metals and Minerals*
A Hope	*Director; Coal*
R G Pettigrew	*Director; Consumer, Agriculture, Preshipment*
R S Tumey	*Administration Director*

Registered office

2 Perry Road, Witham, Essex, CM8 3TU

Auditors

KPMG, Ipswich

Bankers

National Westminster Bank PLC, London

Solicitors

Slaughter and May, London

Birketts, Ipswich

CHAIRMAN'S STATEMENT

I am pleased to report further considerable progress and increased profit during the year thus building on the group's strong position as one of the major independent inspection agencies worldwide, the details of which are outlined in the chief executive's report. This continued success has been due to hard work and commitment, coupled with the implementation of the group's strategic plan. It is encouraging to see the benefits beginning to be generated throughout the group which has enabled Inspectorate to maintain its strong market positions in the core business areas of metals and minerals, and oil and petrochemicals.

Over the past year we have seen an increase in the number of opportunities available to expand and grow the group's worldwide base, especially in emerging markets. By ensuring any developments meet the long-term objectives of the group and by concentrating on those that enhance the group's technical capabilities, we have taken full advantage of some of the most appropriate opportunities. As an internationally-recognised reliable group, Inspectorate now has the business and management structure ready to quickly respond to future market developments across our chosen areas of operation.

In addition, by working with our existing clients and listening to their requirements, we have been able to work in partnership to jointly develop new business together, often in new markets. Strong client relationships will continue to be an important ingredient for the success of the group in the future. A key feature of the management restructuring programme was to achieve greater client focus enabling us to be more responsive to changes in the market and clients needs.

An example of how the group has responded is demonstrated by the programme instigated in the US to improve staff awareness of safe working practices. Health and safety of employees is a major concern for Inspectorate. With the staff's involvement, the company's safety record has further improved. Through the examination of procedures and methods of working, the company has been able to improve efficiency and deliver improved quality of service to clients.

People are Inspectorate's greatest asset and we have continued to encourage staff development of their professional and management skills. This has enabled us to maintain worldwide quality accreditations and recognition of our staff as leading industry authorities in their fields. In this respect it is very pleasing to announce that Inspectorate recently won a new Government contract. As from January 1997 we are operating a one year pre-shipment inspection contract for goods imported into the Republic of Bangladesh. Our principal is the National Board of Revenue whose objective is to improve import tax revenue through custom levy on actual dutiable values. This new business is seen as an endorsement of our growing status and reputation in the inspection industry.

CHAIRMAN'S STATEMENT

(continued)

It has also been encouraging to see the industry acknowledge the experience and expertise of our company by voting to appoint Jeff Luesley, our chief executive, as a council member of the International Federation of Inspection Agencies.

Tom Hudson

On behalf of everybody in the group, I wish to acknowledge the sterling contribution that the late Tom Hudson, vice president technical marketing, made to Inspectorate, particularly his work with the industry on the environmental issue of reformulated gasoline in the US. His sudden death was a sad loss to his family, the group and his many friends, but he has left the legacy of a strong team who are able to continue and develop the crucial work that he started.

Employees

Organisational changes are not always comfortable, my board colleagues and I express our thanks to all staff for their continued support without which the implementation of the group's overall strategy would not have been successful.

Current trading and prospects

We expect the year on year profit improvement to continue and the future will be a challenge we face with confidence. Improvements and enhancements to the services Inspectorate provides to our clients will involve the continued investment in our facilities worldwide, in particular North America and Western Europe, to ensure we remain at the forefront of technology.

We expect to see increasing returns from the implementation of the strategic plan and will look to improve the group's position in key growth areas ie Far East and The Pacific Rim, Eastern Europe, South America and selectively within Africa.

Peter Simonis

Chairman

CHIEF EXECUTIVE'S OPERATING REPORT

Overview

Overall, 1996 was a successful year of development and profit growth that also saw significant progress in the company's established core business areas. The introduction of a new group structure with strengthened management teams plus investment in improved facilities has enabled the group to take advantage of growth in existing markets. Inspectorate achieved record results in both the US and the UK and with the firm foundation of a strong management team the group's core business in all regions is expected to continue to improve.

As a result of the successful management restructuring, Inspectorate has been able to implement its strategic plan to establish new operations in various parts of the world, which are considered strategically important. The group is starting to benefit from the success of some of these new projects. Improvements made to the level of service provided by Inspectorate has resulted in benefits for clients which have strengthened Inspectorate's reputation in the industry and improved client relationships. The group is well on course to meet and move to stage two of the strategic plan.

Financials and business volumes

1996 saw operating profit improve to £3.6m, an increase of 21%. The results have enabled the group again to meet the preference share dividends and debt servicing commitments to institutional investors and banks. These excellent results reflect Inspectorate's worldwide experience and market position in both the oil and petrochemical industry plus the group's solid reputation in the metal and mineral industry.

Economic conditions worldwide particularly in mainland Europe were difficult, yet the group has benefited from a well balanced spread of operating bases and activity around the world. Given the competitive market conditions, the volumes of business the group has achieved, together with the profit growth, demonstrate the aggressive yet effective approach by the group to new market developments. This is especially true of the group's increased share of inspection business in general but, more noticeable in Eastern Europe and the US where profit growth increased significantly above the group's average.

Good business decisions and firm management control over expenditure helped to improve operating expenses for the group over the year.

CHIEF EXECUTIVE'S OPERATING REPORT

(continued)

Inspection market

Inspectorate maintained its enviable position of being one of the larger inspection companies for both metal and minerals and oil and petrochemicals during 1996. The group achieved growth in market share in both these core business areas in an extremely competitive market environment.

1996 was an exceptional year for Inspectorate in North America, even by the standards set for the region in the past. Particularly impressive is the increase in oil and petrochemical business on the East Coast where due to strong marketing presence and good technical support nominations continue to increase. The UK metals and minerals business also surpassed all previous records.

The group's achievements overall were good but results in Europe were a little below that expected, partially due to the economic situation, but the group is looking to strengthen its presence in this market. As part of this initiative a new French inspection operation was established in September. This has already resulted in an improvement to the group's market position in Europe. In addition, since the year end, the group decided to sell the Italian operation to the existing local management team. Under a special agreement the operation will continue to use the Inspectorate name, will represent the group in Italy and must maintain the group's rigid inspection standards. The country's different business style made it more appropriate for this operation to be managed by local people who could more effectively service the needs of the local client base. Italy is important in the long-term regional development of Europe for Inspectorate, so the Italian operation will continue to be included as part of the group's operational audit process.

The Middle East and Africa region experienced a reasonable year. Inspectorate opened a new operation in Nigeria, which has already made progress. In South Africa we relocated from central Johannesburg to a purpose built laboratory complex, which will enable us to better serve this market well into the next century. Changes in market conditions impacted on our results in the Far East and although results for the year were positive they were lower than expectations. 1997 is looking much brighter.

Our other businesses, particularly agriculture, consumer products, fertilisers, steel, and pre-shipment produced very creditable results. For instance, due to the increasing demand for our consumer services in the UK, we invested further in warehouse and handling equipment.

CHIEF EXECUTIVE'S OPERATING REPORT

(continued)

New developments

Part of the group's strategic plan is to develop business in Eastern Europe, and as an example Inspectorate opened operations throughout Russia. The 12 branches have experienced management teams providing the full range of core business services.

Another of Inspectorate's long term objectives is to establish a strong presence in South America. Inspectorate has existing operations in Mexico, Columbia, Venezuela and Bolivia and was pleased to announce the opening of the group's wholly-owned operation in Brazil in early 1996. This operation initially concentrated on major oil and petrochemical clients but is now offering a broader range of services. In addition, the Argentina operation that opened in late 1995 has been successful and has quickly delivered good results for 1996. The operation now has 60 staff and is providing all of the group's business services.

Based on the excellent progress made by the existing operations in this region and the encouraging business prospect for the future, Inspectorate will continue its planned strategy and will continue to start further new operations in South America in the future. In line with the group's development plans Inspectorate has been in successful negotiation with new partners in China and the new joint venture company starts operating in 1997. Inspectorate will initially have branches in Shanghai and Dalian, staffed by the group's experienced management team supported by local Chinese management and inspection staff, offering the group's full range of core business services. This new venture provides Inspectorate with a significant competitive advantage in the region and positions us to take advantage of substantial growth as the region develops.

Service levels

Regular customer surveys have been undertaken in the US on the quality of the services offered by Inspectorate. These surveys are providing valuable client feedback, which has enabled us to improve the services offered to meet their business needs.

The above is part of a highly successful total quality management programme in the US, which is being extended to other regions, the next to be Europe in 1997. The programme is focused on improving the quality of service above the existing high standards set by Inspectorate. The programme has helped to further improve the group's ability to respond to clients' individual needs and interests on a worldwide basis.

CHIEF EXECUTIVE'S OPERATING REPORT

(continued)

Technology

Inspectorate has a committed programme of investment in leading edge technology and during 1996 the group invested in a new communications network which is being implemented worldwide. The network for North America is fully functional and developments are being made in all other regions to improve the group's global communications capability.

As part of the strategic plan it was agreed that certain facilities would be updated. Examples of this are the complete upgrade of our laboratory in New Orleans and the installation of octane and cetane engines in Singapore.

Inspectorate has also undertaken research on the implications to business and IT systems on the impact of the year 2000. A strategy is to be agreed and a programme implemented next year to ensure the group is well prepared and in a position where all systems are tested well ahead of the year 2000.

Future

Working in partnership with our clients is vital to Inspectorate's future growth. Inspectorate recognises the support given by our existing clients and will continue in its efforts to provide solutions for our sophisticated client base to meet their changing needs into the future.

Opportunities exist which Inspectorate is well positioned to exploit actively. It is our intention to achieve greater penetration in the market, to build on our success and to achieve this we will continue to invest in our most valuable asset which undoubtedly is our staff.

Jeff Luesley

Chief Executive

DIRECTORS' REPORT

The directors present their report and the consolidated financial statements for the year ended 31 December 1996.

Principal activities and business review

The principal activity of the group is inspection and testing services - specifically:

i Quantity verification together with inspection, sampling and analysis to determine quality of agricultural, metals/minerals and oil/petrochemical commodities;

ii Preshipment inspection of manufactured and consumer goods for export;

iii Inspection, rectification and preparation for sale of imported consumer products, specifically textiles and garments.

The results of the company and its subsidiaries were considered satisfactory for the year.

Results and dividends

The profit for the period after taxation and minority interest amounted to £1,186,000 (1995: £1,222,000). Preference dividends of £1,025,000 (1995: £1,025,000) are payable leaving a retained profit of £161,000 (1995: £197,000).

Details of transfers to reserves are given in note 16 to the financial statements.

Share capital

Changes in the share capital of the company are detailed in note 15 to the financial statements.

Directors and directors' interests

The directors who held office during the year were as follows:

P G Simonis * *(Chairman)*

W J Luesley

R N McConnell *

R Mort

D R Wright +

M A Farlow *+

J H Lollar *

J Mussellwhite *+

* Non-executive
\+ Alternate Director

The directors do not need to retire by rotation.

At the start of the year R N McConnell was a full non-executive director. On 5 February 1996 he became an alternate non-executive director and on 5 November 1996 he again became a full non-executive director.

At the start of the year M A Farlow was an alternate non-executive director. On 5 February 1996 she became a full non-executive director. On 16 May 1996 she resigned.

J Mussellwhite was appointed as an alternate non-executive director on 5 November 1996.

DIRECTORS' REPORT

(continued)

The directors who held office at the end of the financial period had the following interests in the ordinary shares of the company as recorded in the register of directors' share interests:

	Ordinary shares of £1 each at 31 December 1995 and 31 December 1996 Number
P G Simonis	15,000
W J Luesley	31,250
R Mort	8,375
D R Wright	18,375

None of the other directors who held office at the end of the financial period had any disclosable interest in the shares of the company. No directors held the right to subscribe for shares in group companies. All of the above shareholdings are 'A' ordinary shares with the exception of those held by P G Simonis which are 'B' ordinary shares.

Political and charitable contributions

The company made no political contributions during the period. Donations to UK charities amounted to £1,518 (1995: £861).

Employment of disabled persons

The company's policy is to give full consideration to applications from disabled persons and to ensure that those recruited receive training, career development and promotion which is similar to that of all other employees. Career opportunities are made available, where possible, for employees who become disabled whilst in the employment of the group.

Employee involvement

The directors believe in keeping employees informed on matters relevant to the business and issue a staff newsletter informing them of current events occurring in the group.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

2 Perry Road
Witham
Essex
CM8 3TU

D J Lappage

Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT

TO THE MEMBERS OF INSPECTORATE PLC

We have audited the financial statements on pages 11 to 31.

Respective responsibilities of directors and auditors

As described above the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors
Ipswich

9th May 1997

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1996

	Note	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Turnover		65,447	64,452
Cost of sales		(45,193)	(44,621)
Gross profit		20,254	19,831
Administrative expenses		(16,660)	(16,872)
Share of profits from associated undertakings	8	(3)	17
Operating profit		3,591	2,976
Interest receivable		34	56
Profit before interest payable and taxation		3,625	3,032
Interest payable and similar charges	5	(588)	(592)
Profit on ordinary activities before taxation	2-4	3,037	2,440
Tax on profit on ordinary activities	6	(1,826)	(1,218)
Profit on ordinary activities after taxation		1,211	1,222
Minority interest		(25)	-
Profit for the year attributable to members of the parent company		1,186	1,222
Dividends on non-equity shares		(1,025)	(1,025)
Retained profit for the financial year for equity shareholders	16	161	197
Retained profit/(loss) for the financial year			
The company		(15)	(106)
Subsidiary undertakings		219	305
Associated undertakings		(43)	(2)
		161	197

CONSOLIDATED BALANCE SHEET

at 31 December 1996

	Note	31 December 1996 £000	31 December 1995 £000
Fixed assets			
Tangible assets	*7*	7,712	8,686
Investments	*8*	376	410
		8,088	9,096
Current assets			
Stocks	*9*	739	643
Debtors	*10*	13,508	13,484
Cash at bank and in hand		2,118	3,143
		16,365	17,270
Creditors: amounts falling due within one year	*11*	(15,093)	(15,274)
Net current assets		1,272	1,996
Total assets less current liabilities		9,360	11,092
Creditors: amounts falling due after more than one year	*12*	(1,576)	(2,850)
Provisions for liabilities and charges	13	(278)	(186)
Net assets		7,506	8,056
Capital and reserves			
Called up share capital	15	11,250	11,250
Reserves	16	(3,777)	(3,194)
Shareholders' funds			
Equity	17	(2,777)	(2,194)
Non-equity	17	10,250	10,250
Shareholders' funds		7473	8,056
Minority interest		33	-
		7,506	8,056

These financial statements were approved by the board of directors on ~~9th~~ May 1997 and were signed on its behalf by:

W J Luesley
Director

R Mort
Director

COMPANY BALANCE SHEET

at 31 December 1996

	Note	31 December 1996 £000	31 December 1995 £000
Fixed assets			
Investments	*8*	10,094	10,612
Current assets			
Debtors	*10*	3,637	3,051
Cash at bank and in hand		35	659
		3,672	3,710
Creditors: amounts falling due within one year	*11*	(2,337)	(2,878)
Net current assets		1,335	832
Net assets		11,429	11,444
Capital and reserves			
Called up share capital	*15*	11,250	11,250
Reserves	*16*	179	194
Shareholders' funds			
Equity		1,179	1,194
Non-equity		10,250	10,250
		11,429	11,444

These financial statements were approved by the board of directors on 9th May 1997 and were signed on its behalf by:

W J Luesley
Director

R Mort
Director

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1996

	Note	Year ended 31 December 1996 £000	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000	Year ended 31 December 1995 £000
Net cash inflow from operating activities	20		3,837		5,562
Return on investments and servicing of finance					
Interest received		34		56	
Interest paid		(584)		(605)	
Dividends paid		(1,025)		(1,025)	
Net cash outflow from returns on investment and servicing of finance			(1,575)		(1,574)
Taxation					
Tax paid			(943)		(935)
Investing activities					
Purchase of tangible fixed assets		(1,729)		(2,265)	
Investment in associated undertakings		(15)		(10)	
Sale of tangible fixed assets		179		552	
Cash outflow on acquisition of subsidiary		(50)		-	
Net cash outflow from investing activities			(1,615)		(1,723)
Net cash inflow before financing			(296)		1,330
Financing					
Repayment of amounts borrowed		1,398		712	
New loans and finance leases		(425)		(408)	
Net cash outflow from financing	21		973		304
(Decrease)/increase in cash and cash equivalents	22		(1,269)		1,026
			(296)		1,330

NOTES

(forming part of the financial statements)

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain fixed assets.

Basis of consolidation

The group accounts consolidate the accounts of Inspectorate PLC and all its subsidiary undertakings. These accounts are made up to 31 December 1996. For associated undertakings the group includes its share of profits and losses in the consolidated profit and loss account and its share of post acquisition retained profits or accumulated deficits in the consolidated balance sheet. The consolidated accounts are based on accounts which are coterminous with those of the parent company.

The acquisition method of accounting has been adopted, under which the results of subsidiary and associated undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is debited to a separate reserve. Transfers are made between the goodwill written off account and the profit and loss account to reflect the diminution in value of goodwill over its useful life which is estimated to be 5 years.

In the company's accounts, investments in subsidiary and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

In accordance with Section 230(3) of the Companies Act 1985 Inspectorate PLC is exempt from the requirement to present its own profit and loss account.

Fixed assets and depreciation

Depreciation is provided by the group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	- 2% per annum
Leasehold land and buildings	- life of lease
Plant & machinery, fixtures, fittings, tools and equipment	- 10% to 33% per annum

No depreciation is provided on freehold land.

Leases

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 December 1996

	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Profit for the financial period	1,186	1,222
Currency translation differences on foreign currency net investments	(738)	(92)
Total gains and losses recognised	448	1,130

NOTES

(continued)

1. ACCOUNTING POLICIES

(continued)

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

For consolidation purposes, the assets and liabilities of overseas subsidiary undertakings and associated undertakings are translated at the closing exchange rates and the profit and loss accounts at average exchange rates. Exchange differences arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Pension scheme

The group currently operates money purchase pension schemes in the United Kingdom and a number of overseas companies. The contributions are charged to the profit and loss account in the year in which they are made.

The group operates a defined benefit pension scheme in South Africa. Contributions to the scheme are charged to the profit and loss account so as to spread the cost over employees' working lives with the group.

The assets of all schemes are held separately from those of the group.

Investments

Investments are valued at cost, except where the directors consider that there has been a permanent diminution in value. Provision is made against the cost of the investment to reduce its value accordingly.

Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability or asset will crystallise.

Turnover

Turnover, which all arose from the group's primary activity of offering inspection and testing services, represents the invoiced value of services provided excluding value added tax.

Turnover, profit before taxation and net assets

These accounts do not contain an analysis of turnover, and profits before taxation or net assets by geographical area as the directors believe that this information would be seriously prejudical to the interests of the group.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

		Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Profit on ordinary activities before taxation is stated after charging			
Auditors' remuneration	- audit	107	101
	- other services	55	54
Depreciation and other amounts written off tangible fixed assets:	- owned	1,573	1,674
	- leased	235	158
Hire of plant and machinery	- rentals payable under operating leases	617	1,120
Hire of other assets		1,445	1,718

3. REMUNERATION OF DIRECTORS

	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Directors' emoluments:		
As directors	400	341

The emoluments, excluding pension contributions, of the chairman were £25,000 (1995: £25,000) and those of the highest paid UK director were £154,335 (1995: £125,588).

The emoluments, excluding pension contributions, of the directors (including the chairman and highest paid director) were within the following ranges:

			Number of directors 1996	1995
£0	-	£ 5,000	4	3
£20,001	-	£25,000	1	1
£65,001	-	£70,000	-	1
£70,001	-	£75,000	-	1
£80,001	-	£85,000	1	-
£85,001	-	£90,000	1	-
£125,001	-	£130,000	-	1
£150,001	-	£155,000	1	-

NOTES

(continued)

6. TAXATION

	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Current year:		
UK corporation tax at 33% (1995:33%) on the profit for the year on ordinary activities	1,338	924
Overseas taxation	957	578
Double tax relief	(768)	(465)
Deferred tax	148	82
Share of tax of associated undertaking	40	19
	1,715	1,138
Prior year:		
UK corporation tax	57	80
Overseas tax	5	-
Deferred tax	49	-
	1,826	1,218

Certain overseas companies within the group have unrelieved tax losses available to be carried forward for offset against future profits.

The tax charge is adversley affected by unrelieved losses on the Italian subsidiaries which have been sold in 1997.

NOTES

(continued)

4. STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	1996	1995
Operations	1,333	1,297
Administration	216	183
	1,549	1,480

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Wages and salaries	26,548	26,089
Social security costs	3,167	3,032
Other pension costs (see note 14)	591	495
	30,306	29,616

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
On bank loans, overdrafts and other loans wholly repayable within five years	512	503
On all other loans	23	39
Finance charges payable in respect of finance leases and hire purchase contracts	53	50
	588	592

NOTES

(continued)

7. TANGIBLE FIXED ASSETS

	Land and buildings	Plant and machinery	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000
Group				
Cost				
At beginning of year	3,626	12,752	2,986	19,364
Additions	95	1,045	589	1,729
Additions arising on acquisitions	-	56	-	56
Disposals	(304)	(436)	(94)	(834)
Exchange adjustment	(223)	(1,254)	(353)	(1,830)
Reclassification	-	(9)	9	-
At end of year	3,194	12,154	3,137	18,485
Depreciation and diminution in value				
At beginning of year	724	7,864	2,090	10,678
Charge for year	98	1,349	361	1,808
On disposals	(106)	(389)	(91)	(586)
Exchange adjustment	(40)	(847)	(240)	(1,127)
Reclassification	-	(2)	2	-
At end of year	676	7,975	2,122	10,773
Net book value				
At 31 December 1996	2,518	4,179	1,015	7,712
At 31 December 1995	2,902	4,888	896	8,686

Included in the total net book value of plant and machinery is £750,000 (1995: £713,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £194,000 (1995: £130,000).

Included in the total net book value of fixtures, fittings, tools and equipment is £115,000 (1995: £31,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £13,000 (1995: £31,000).

The net book value of land and buildings comprises:	Group 1996	Group 1995
	£000	£000
Freehold	2,178	2,765
Long leasehold	225	18
Short leasehold	115	119
	2,518	2,902

Included in freehold land and buildings is £271,000 (1995: £231,000) in respect of land which has not been depreciated.

8. FIXED ASSET INVESTMENTS

Group	Interests in associated undertakings £000
Cost	
At 1 January 1996	410
Share of profits for the year	(7)
Additions	15
Exchange adjustment	(42)
At 31 December 1996	376

The group's interest in associated undertakings are set out below. The business of all the associates is the same as the group's principal activity.

	Class of shares	% interest	Country of incorporation or registration
Inspectorate Watson Gray UAE	Partnership	49.0	United Arab Emirates
Watson Gray (Saudi Arabia) Ltd	Ordinary	49.0	Saudi Arabla
Inspectorate (Malaysia) Sdn	Ordinary	49.0	Malaysia
Inspectorate Griffith (India) Pvt Ltd	Ordinary	49.0	India
Inspectorate Australia Pty Ltd	Ordinary	50.0	Australia
Inspectorate Griffith (Chile) SA	Ordinary	10.0	Chile
Charles Martin Ecuador CA	Ordinary	50.0	Ecuador

8. FIXED ASSET INVESTMENTS
(continued)

Company	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
Cost			
At 1 January 1996	5,609	5,003	10,612
Additions	169	64	233
Reallocation from loans to shares	1,519	(1,519)	-
Amounts written off	(751)	-	(751)
At 31 December 1996	6,546	3,548	10,094

The company's major subsidiaries all of which operate in the same business as the holding company, are as follows:

		Country of incorporation or registration
*	Inspectorate (US) Ltd	England & Wales
*	Inspectorate (Overseas) Ltd	England & Wales
*	Daniel C Griffith Holdings Limited	England & Wales
	Inspectorate Griffith Ltd	England & Wales
	Inspectorate Worldwide Services Ltd	England & Wales
	Inspectorate America Holdings Inc	USA
	Inspectorate America Corporation	USA
	Coastal Grain Services Inc	USA
	Inspectorate Commodity Services Inc	USA
	Inspectorate Griffith USA Inc	USA
	Chas Martin Inspections & Controls Inc	USA
	Chas Martin International Inc	USA
	Chas Martin Canada Inc	Canada
	Inspectorate Curacao NV	Netherland Antilles
	Inspectorate St Eustatius NV	Netherland Antilles
	Inspectorate Bahamas Ltd	Bahamas
	Inspectorate de Venezuela SA	Venezuela
	Inspectorate De Mexico SA De CV	Mexico
	Inspectorate Columbia LtdA	Columbia
	IOL Investments BV	Netherlands
	Griffith Holdings BV	Netherlands
	Marine Surveyors Holland BV	Netherlands
	G Watson Gray (Holland) BV	Netherlands
	Daniel C Griffith (Holland) BV	Netherlands
+	Inspectorate Italia Spa	Italy
+	Watson Gray Srl	Italy

NOTES
(continued)

8. FIXED ASSET INVESTMENTS
(continued)

	Country of incorporation or registration
Inspectorate Espanola SA	Spain
Watson Gray & Griffith De Inspeccos E Controle LDA	Portugal
Inspectorate (Suisse) SA	Switzerland
Inspectorate M&L (Pty) Ltd	South Africa
Inspectorate Griffith NV	Belgium
Inspectorate Hellas EPE	Greece
Inspectorate (Far East) Ltd	Hong Kong
Inspectorate France Sarl	France
Inspectorate International Inspection and Consulting GmbH	Germany
Inspectorate Griffith GmbH	Germany
Inspectorate (Singapore) Pte Limited	Singapore
Inspectorate de Argentina SA	Argentina
Inspectorate America do Brazil Servicos Tecnicos Ltda	Brazil
Inspectorate Latvia	Latvia
Inspectorate Klaipeda Ltd	Lithuania
Inspectorate West Africa Ltd (60%)	Jersey
Rosinspectorate Limited (60%)	Russia
Inspectorate Estonia Ltd (60%)	Estonia
Inspectorate Shanghai Ltd (50%)	China
Inspectorate SA (80%)	France

All the above subsidiaries are wholly owned except where indicated. The companies marked * are owned directly by Inspectorate PLC, the other companies are owned indirectly via these intermediate holding companies.

+ Indicates subsidiaries which have been sold in 1997

9. STOCKS

	Group	
	1996	1995
	£000	£000
Raw materials and consumables	268	308
Work in progress	471	335
	739	643

NOTES
(continued)

10. DEBTORS

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	11,209	10,985	-	-
Amounts owed by subsidiary undertakings	-	-	3,135	2,681
Amounts owed by associated undertakings	296	126	-	-
Other debtors	778	1,323	47	34
Tax and ACT recoverable	134	-	163	-
Prepayments and accrued income	833	653	36	-
	13,250	13,087	3,381	2,715
Amounts falling due after more than one year				
Other debtors	2	61	-	-
ACT recoverable	256	336	256	336
	13,508	13,484	3,637	3,051

11. CREDITORS:
AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1996	1995	1996	1995
	£000	£000	£000	£000
Bank loans and overdrafts (see note 12)	2,540	2,416	-	-
Obligations under finance leases and hire purchase contracts (see note 12)	219	213	-	-
Amounts due to subsidiary undertakings	-	-	687	1,051
Amounts owed to associated undertakings	192	-	-	-
Payments received on account	79	86	-	-
Trade creditors	3,705	3,976	-	-
Other creditors including taxation and social security:				
Corporation Tax and ACT	1,418	869	256	256
Social security and other taxes	554	622	-	-
Other creditors	2,386	2,403	234	459
Accruals and deferred income	2,975	3,664	135	87
Dividend payable	1,025	1,025	1,025	1,025
	15,093	15,274	2,337	2,878

12. CREDITORS:
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group	
	1996	1995
	£000	£000
Bank loans	1,167	2,375
Obligations under finance leases and hire purchase contracts	302	289
Payments received on account	20	-
Other creditors	87	186
	1,576	2,850

The loans are all secured on certain assets of the group. Interest is payable on the loans at rates linked to local bank rates.

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group	
	1996	1995
	£000	£000
Within one year	237	242
In the second to fifth years	343	303
More than five years	-	19
	580	564
Less future finance charges	(59)	(62)
	521	502

13. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000
Group	
At 1 January 1996	186
Charge for the year in the profit and loss account	148
Exchange adjustment	(56)
At 31 December 1996	278

The amounts provided for deferred taxation and the amounts not provided are set out below:

	1996		1995	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	621	117	649	128
Other timing differences	(343)	-	(463)	-
Deferred tax liability	278	117	186	128

The distributable reserves of overseas subsidiaries and associates would be subject to tax if paid as dividends. No deferred taxation is provided in respect of these as it is expected that no material liability will arise in the foreseeable future.

NOTES
(continued)

14. PENSION SCHEME

From 1 March 1993 the group has operated a money purchase pension scheme in respect of its UK employees. The costs for the year were £245,000 (1995: £254,000).

The group operates a defined benefit pension scheme for certain South African employees. The cost for the year was £60,000 (1995: £84,000). The most recent actuary's report as at 1 September 1995 indicated that there was a surplus which is being addressed by adjusting contributions.

The group also operates a number of other money purchase pension schemes in overseas companies. The costs for the year were £286,000 (1995: £157,000).

15. CALLED UP SHARE CAPITAL

	1996	1995
	£000	£000
Authorised, allotted, called up and fully paid		
'A' ordinary shares of £1 each	250	250
'B' ordinary shares of £1 each	750	750
10% cumulative redeemable preference shares of £1 each	10,250	10,250
	11,250	11,250

'A' Ordinary and 'B' Ordinary shares

Both 'A' and 'B' ordinary shareholders are entitled to one vote per ordinary share held. They share in any ordinary dividends declared and participate in any surplus on winding up according to the number of ordinary shares held.

Preference shares

Preference shareholders are entitled to a fixed cumulative preference dividend at a rate of 10 pence per share per annum. Interest will accrue on any late dividends.

Preference shares are redeemable, subject first to the settlement of certain bank loans, either on the date on which a listing becomes effective, or if earlier, then 31 January 1998. On redemption the nominal value, any arrears or accruals and interest thereon is payable. At 31 December 1996 the amount outstanding on the bank loan to be settled was £1,691,000.

The preference shareholders have no right to participate in a surplus on winding up.

The preference shareholders have no voting rights.

NOTES
(continued)

16. RESERVES

	Goodwill written off account £000	Group profit and loss account £000	Total £000
At 1 January 1996	(1,648)	(1,546)	(3,194)
Retained profit for year	-	161	161
Exchange adjustments	-	(738)	(738)
Transfer between reserves	1,041	(1,041)	-
Other movements	(6)	-	(6)
At 31 December 1996	(613)	(3,164)	(3,777)

	Company profit and loss account £000
At 1 January 1996	194
Loss for year	(15)
At 31 December 1996	179

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years which has been written off is £5,195,000. This amount is net of goodwill attributable to subsidiary undertakings or businesses disposed of prior to the balance sheet date.

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1996 Equity £000	1996 Non equity £000	1995 Equity £000	1995 Non Equity £000
Profit for the financial year	1,186	-	1,222	-
Finance costs accruing	(1,025)	1,025	(1,025)	1,025
Non equity dividends proposed	-	(1,025)	-	(1,025)
Other recognised losses relating to the year	(738)	-	(92)	-
Other movements	(6)	-	100	-
Opening shareholders' funds	(2,194)	10,250	(2,399)	10,250
Closing shareholders' funds	(2,777)	10,250	(2,194)	10,250

NOTES
(continued)

18. CONTINGENT LIABILITIES

The company has guaranteed certain bank loans and overdrafts of its subsidiaries; the amount outstanding at the year end was £2,893,000 (1995: £3,731,000).

The group has entered into performance bonds and guarantees amounting to £1,687,000 (1995: £1,730,000).

19. COMMITMENTS

The group has no capital commitments at the end of the financial year.

Annual commitments under non-cancellable operating leases are as follows:

		1996		1995
	Land and buildings	Other	Land and buildings	Other
Group	£000	£000	£000	£000
Operating leases which expire:				
Within one year	189	188	390	399
In the second to fifth years inclusive	600	757	544	591
Over five years	118	10	288	-
	907	955	1,222	990

20. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Year ended 31 December 1996 £000	Year ended 31 December 1995 £000
Operating profit	3,591	2,976
Depreciation charge	1,808	1,831
Loss on sale of tangible fixed assets	69	19
Income from associated undertakings net	3	-
(Increase)/decrease in stocks	(96)	10
(Increase)/decrease in debtors	(262)	224
(Decrease)/increase in creditors	(1,276)	715
Provisions utilised in the period	-	(213)
Net cash inflow from operating activities	3,837	5,562

21. ANALYSIS OF MOVEMENTS IN LOANS AND FINANCE LEASES

	Bank loans & overdrafts	Finance leases	Total
	£000	£000	£000
Balance at 1 January 1995	4,466	603	5,069
Additions to loans	261	147	408
Additions to overdraft	504	-	504
Repayments	(464)	(248)	(712)
Exchange movements	24	-	24
Balance at 31 December 1995	4,791	502	5,293
Repayments	(1,094)	(304)	(1,398)
Additions to loans	74	351	425
Additions to overdraft	244	-	244
Exchange movements	(308)	(28)	(336)
Balance at 31 December 1996	3,707	521	4,228

22. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	Cash/ Bank	Bank overdrafts	Net
	£000	£000	£000
Balance at 1 January 1995	1,613	(748)	865
Net cash inflow/(outflow) before adjustments for foreign exchange rate changes	1,530	(504)	1,026
Balance at 31 December 1995	3,143	(1,252)	1,891
Net cash (outflow) before adjustments for foreign exchange rate changes	(1025)	(244)	(1269)
Balance at 31 December 1996	2118	(1,496)	622