

INSPECTORATE PLC

Management team

Directors and officers

P G Simonis*	<i>Chairman</i>
W J Luesley	<i>Chief Executive</i>
R Mort	<i>Financial Director</i>
R S Tumey	<i>Administration Director</i>
R N McConnell*	
J H Lollar*	
M A Farlow+*	
D J Lappage	<i>Company Secretary</i>

*Non-executive Director
+Alternate Director

Senior executives

N Hopkins	<i>President, Inspectorate America Corporation</i>
D R Wright	<i>Managing Director, Metals and Minerals</i>
A Hope	<i>Director, Petroleum (excl. Americas)</i>
P Howard	<i>Director of Development USA</i>
T Hudson	<i>Vice President, Marketing USA</i>
J Lopez	<i>Vice President, Latin America</i>
J L North	<i>Marketing Director, Metals and Minerals</i>
R G Pettigrew	<i>Director, Consumer, Agriculture, Preshipment</i>
W Pope	<i>Director, Environmental</i>
S Sibley	<i>Vice President, Agriculture USA</i>
J Siebols	<i>Vice President, Government Contracts</i>
K Somers	<i>Vice President, Petroleum USA</i>

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



REVIEW OF THE YEAR

This annual report covers the second full year of trading by the company since the management led acquisition in 1992. Revenues were £60.1m and operating profit was £2.2m, results which were creditable in what was not an easy trading year. The company was able to meet all the preference share dividends and debt servicing commitments to its institutional investors and banks.

In the UK we held market share despite strong competitive pressures and we enhanced our reputation for quality and service with an increasing client base. In the USA the business climate recovered during the year and results were ahead of budget but in some of the European markets we were disappointed that the pick up in their economies was slower than expected. Overall the group was able to maintain its turnover and profitability at levels very similar to the preceding year.

During 1994 the Board gave priority to ensuring that the group's activities around the world were integrated into one cohesive management structure, with strong international functional responsibilities in addition to regional accountability. Neil Hopkins, who was appointed President of our American company, was also given worldwide responsibility for oil and petroleum operations and David Wright took a similar role as head of international metals and minerals business. Both have many years' experience with Inspectorate and are particularly well qualified for their new responsibilities. It is pleasing to report that results in the USA have already further improved.

Strategy for the year was first to consolidate our position in our major markets so that we were ready to take advantage of the upturn in the economies around the world; and secondly to continue the programme of establishing the group in other regions which we believe will provide us with increasing opportunities in the future.

We were pleased to re-establish operations in Kuwait in August and opened a new office there in Mangaf close to the important oil terminal and refineries of Ahmadi. This was a major development in the extension of our coverage in the Gulf.

The South African company had a good year despite initial concern over the political uncertainty and we are now planning a move to new purpose-built premises in Johannesburg. Expansion in the Pacific Basin is on course with new companies in India and Malaysia both experiencing good progress in their first years.

In Japan we have strengthened the longstanding relationship with Shin Nihon Kentei Kyokai. This is one of the leading inspection companies in that country and we are now in a strong position to develop services in this important region.

We have been paying considerable attention to realising the potential for business in Russia and the CIS countries. Early in 1994 operational offices and laboratory facilities were established at several locations to give us excellent coverage of the Baltic and Black Sea areas in particular and we have formed a new company, Rosinspectorate, based in Moscow. The group is now providing full services in all product areas throughout Eastern Europe and we look forward to seeing the results of this investment in coming months.

The oil and petrochemical division represents a major part of our business and we have a network of international offices and laboratories covering all the industry's main locations. The provision of modern testing and analytical services is as vital to this business sector as it is to all other activities, and so we have been concentrating on updating our laboratory facilities.

In the USA last year we opened a new laboratory in New Orleans which provided a centrally located facility with state-of-the-art testing capabilities, and several other laboratories in that country were extensively re-equipped. One of the latest developments for this division has been the worldwide impact of reformulated gasoline. The regulatory compliance certification of this more environmentally friendly gasoline increased the need for inspection and testing services. Our petroleum division was successful in numerous tenders and is considered by many to be a leader in this field.

REVIEW OF THE YEAR *continued*

In the UK we took over a sizeable building close to a major oil and petroleum complex on the Thames and this now houses comprehensive laboratory facilities. In October, The Rt. Hon. John Redwood MP, Secretary of State for Wales, opened the new purpose built laboratory at Milford Haven which is sited near refineries which together have one of the largest throughputs of petroleum products in the UK.

The metals and minerals business saw an upturn in most of its markets during the year and we maintained our pre-eminent position in the UK. Subsequent to a reorganisation carried out in the USA we believe the prospects for this division are now further improved.

The division was the first independent metals and minerals inspection operation to obtain ISO 9002/BS 5750 quality registration in the UK. At our Christmas reception for clients in London Jeff Luesley was pleased, on behalf of Inspectorate, to receive the certificate from The Rt. Hon. Tony Newton OBE, MP, Leader of the House of Commons.

The consumer inspection business which has a very wide geographical spread enjoyed a successful year, particularly in its specialist facilities in Leeds and Hong Kong. The agricultural division saw more mixed fortunes; its international trade business continued strongly but the smaller local activity is only now picking up after a fairly difficult time.

In the field of government contracts covering preshipment inspection and price verification, much groundwork was carried out during the year and significant growth is expected during 1995. The anticipated re-bidding process for our contract with Bolivia was postponed and we continue to service the contract.

A combination of internal rationalisation and a steady improvement in the UK economy mean that the prospects for the environmental division are now promising. The division's activities in continental Europe continue to be affected by the economic background but this has been offset by success in the Middle East, which has included several significant contracts in the Kingdom of Saudi Arabia.

Last year we reported on the importance Inspectorate attaches to the achievement of quality accreditations and registrations. They are the visible evidence of the principles which we apply in all areas of activity and which are major reasons for our success in a business dependent on the quality of its service. Our programme for obtaining ISO 9002, NAMAS and other internationally recognised standards is largely now complete in all major areas of operation. During the year, in addition to the award for metals and minerals in the UK, STERLAB accreditation was obtained by our environmental laboratory in Rotterdam, ISO 9002 by the preshipment division in the USA, SINGLAS accreditation by our Singapore laboratory and SABS 0259 by our coal laboratory in Johannesburg.

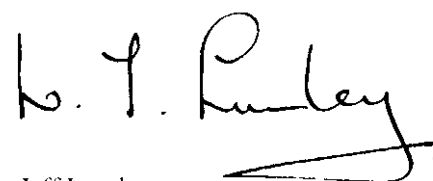
At Inspectorate we seek to involve every employee in the development of our total quality concept and we believe that this is evidenced by the way in which the group's outstanding reputation for the standard of its service moved forward still further during 1994.

Our business depends primarily on the professionalism, commitment and enthusiasm of all its people. Without that Inspectorate would not be achieving its present success, nor would we be sure of its future progress, and on behalf of the management team we thank everybody for their efforts and dedication.

The Board believes that the group is well on course to realising its objective of leadership in its chosen markets. Provided that the world's economies continue their current improvement we are confident Inspectorate will achieve steady and profitable growth.



Peter Simonis
Chairman



Jeff Luesley
Chief Executive

DIRECTORS' REPORT

The directors present their report and the consolidated financial statements for the year ended 31 December 1994.

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) Environmental consultancy and laboratory services;
- (iii) Preshipment inspection of manufactured and consumer goods for export;
- (iv) 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 amounted to £820,000 (1993: £1,429,000). Preference dividends of £1,025,000 (1993: £1,217,000) are proposed, leaving a retained loss of £205,000 (1993 profit: £212,000).

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.

Significant changes in fixed assets

Changes in fixed assets are dealt with in notes 7 and 8 set out on pages 15 to 17.

Directors and directors' interests

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

PG Simonis*	(Chairman)
WJ Luesley	
RN McConnell*	
R Mort	
DR Wright+	
MA Farlow+*	
JH Lollar*	(Appointed 22 February 1994)

* Non-executive + Alternate director

The directors do not need to retire by rotation.

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 1993 and 31 December 1994	
	Number
PG Simonis	15,000
WJ Luesley	31,250
R Mort	8,375
DR 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 PG 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 £1,293 (1993: £926).

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

On 6 February 1995 our auditors changed the name under which they practise to KPMG and, accordingly, have signed their report in their new name. In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



DJ Lappage
Secretary

Registered office
2 Perry Road, Witham
Essex CM8 3TU

Inspectorate PLC
Registered number 2721275

15 May 1995

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 7 to 23.

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 1994 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

*Chartered Accountants
Registered Auditors*

Ipswich

15 May 1995

CONSOLIDATED PROFIT AND LOSS ACCOUNT

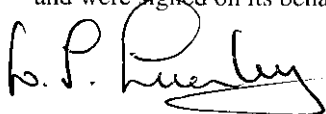
		Year ended 31 December 1994 £000	Year ended 31 December 1993 £000
	Note		
Turnover		60,059	56,697
Cost of sales		<u>(42,106)</u>	<u>(38,333)</u>
Gross profit		17,953	18,364
Administrative expenses		<u>(15,773)</u>	<u>(15,925)</u>
Share of profits from associated undertakings	8	<u>21</u>	<u>219</u>
Operating profit		2,201	2,658
Other income		<u>126</u>	<u>90</u>
Interest payable and similar charges	5	<u>(608)</u>	<u>(586)</u>
Profit on ordinary activities before taxation	2-4	1,719	2,162
Tax on profit on ordinary activities	6	<u>(899)</u>	<u>(733)</u>
Profit on ordinary activities after taxation		820	1,429
Dividends on non-equity shares		<u>(1,025)</u>	<u>(1,217)</u>
Retained (loss)/profit for the financial year for equity shareholders	16	<u>(205)</u>	<u>212</u>
Retained (loss)/profit for the financial year			
The company		<u>(146)</u>	<u>(789)</u>
Subsidiary undertakings		<u>(80)</u>	<u>1,001</u>
Associated undertakings		<u>21</u>	<u>-</u>
		<u>(205)</u>	<u>212</u>

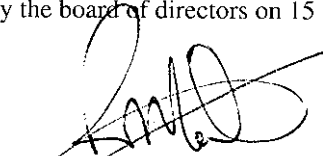
CONSOLIDATED BALANCE SHEET

at 31 December 1994

	Note	1994 £000	1993 £000
Fixed assets			
Tangible assets	7	8,671	9,063
Investments	8	400	355
		<u>9,071</u>	<u>9,418</u>
Current assets			
Stocks	9	653	227
Debtors	10	13,635	13,208
Cash at bank and in hand		1,613	2,647
		<u>15,901</u>	<u>16,082</u>
Creditors: amounts falling due within one year	11	<u>(13,824)</u>	<u>(12,781)</u>
Net current assets		<u>2,077</u>	<u>3,301</u>
Total assets less current liabilities		11,148	12,719
Creditors: amounts falling due after more than one year	12	(3,111)	(4,152)
Provisions for liabilities and charges	13	<u>(186)</u>	<u>(390)</u>
Net assets		<u>7,851</u>	<u>8,177</u>
Capital and reserves			
Called up share capital	15	11,250	11,250
Reserves	16	<u>(3,399)</u>	<u>(3,073)</u>
Shareholders' funds			
Equity	17	<u>(2,399)</u>	<u>(2,073)</u>
Non-equity	17	<u>10,250</u>	<u>10,250</u>
		<u>7,851</u>	<u>8,177</u>

These financial statements were approved by the board of directors on 15 May 1995 and were signed on its behalf by:


WJ Luesley
Director

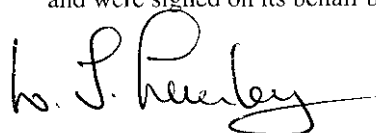

R Mort
Director

COMPANY BALANCE SHEET

at 31 December 1994

	Note	1994 £000	1993 £000
Fixed assets			
Investments	8	<u>12,012</u>	<u>11,512</u>
Current assets			
Debtors	10	<u>1,770</u>	<u>1,359</u>
Cash at bank and in hand		<u>-</u>	<u>921</u>
		1,770	2,280
Creditors: amounts falling due within one year	11	<u>(1,358)</u>	<u>(2,096)</u>
Net current assets		<u>412</u>	<u>184</u>
Total assets less current liabilities		12,424	11,696
Creditors: amounts falling due after more than one year		<u>(874)</u>	<u>-</u>
Net assets		<u>11,550</u>	<u>11,696</u>
Capital and reserves			
Called up share capital	15	<u>11,250</u>	<u>11,250</u>
Reserves	16	<u>300</u>	<u>446</u>
Shareholders' funds			
Equity		<u>1,300</u>	<u>1,446</u>
Non-equity		<u>10,250</u>	<u>10,250</u>
		<u>11,550</u>	<u>11,696</u>

These financial statements were approved by the board of directors on 15 May 1995 and were signed on its behalf by:



WJ Luesley
Director



R Mort
Director

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 1994		Year ended 31 December 1993	
		£000	£000	£000	£000
Net cash inflow from operating activities	20		3,911		957
Return on investments and servicing of finance					
Interest received		48		90	
Interest paid		(613)		(517)	
Income from associated undertakings		-		219	
Dividends received		78		-	
Dividends paid		(1,217)		-	
Net cash outflow from returns on investment and servicing of finance			(1,704)		(208)
Taxation					
Tax paid		(1,020)		(237)	
Tax paid			(1,020)		(237)
Investing activities					
Purchase of tangible fixed assets		(1,607)		(1,653)	
Investment in associated undertakings		(48)		(39)	
Sale of associated undertakings		5		-	
Sale of tangible fixed assets		46		105	
Net cash outflow from investing activities			(1,604)		(1,587)
Net cash outflow before financing			(417)		(1,075)
Financing					
Issue of ordinary share capital		-		(3,728)	
Repayment of amounts borrowed		1,626		4,861	
New loans and finance leases		(657)		(510)	
Net cash inflow from financing	21		969		623
Decrease in cash and cash equivalents	22		(1,386)		(1,698)
			(417)		(1,075)

STATEMENT OF RECOGNISED GAINS & LOSSES

	1994 £000	1993 £000
Profit for the financial period	820	1,429
Currency translation differences on foreign currency net investments	(121)	(286)
Total gains and losses recognised	699	1,143

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 1994. 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. Subsequent adjustments to fair values are made when they become apparent. 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 and 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.

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.

NOTES *continued*

Pension schemes	<p>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.</p> <p>The group operates a defined benefit pension scheme in South Africa (and previously in the United Kingdom). Contributions to the scheme are charged to the profit and loss account so as to spread the costs over employees' working lives with the group.</p> <p>The assets of all schemes are held separately from those of the group.</p>
Investments	<p>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.</p>
Stock and work in progress	<p>Stock and work in progress is valued at the lower of cost and net realisable value.</p>
Taxation	<p>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.</p>
Turnover	<p>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.</p>
Turnover, profit before taxation and net assets	<p>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 prejudicial to the interests of the group.</p>

2 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 1994 £000	Year ended 31 December 1993 £000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration – audit	139	143
– other services	44	47
Depreciation and other amounts written off		
tangible fixed assets – owned	1,436	1,699
– leased	317	189
Hire of plant and machinery – rentals payable under		
operating leases	1,209	1,101
Hire of other assets – operating leases	919	1,189

NOTES *continued*

3 REMUNERATION OF DIRECTORS

	Year ended 31 December 1994 £000	Year ended 31 December 1993 £000
Directors' emoluments:		
As directors	313	329

The emoluments, excluding pension contributions, of the chairman were £20,000 (1993: £20,000) and those of the highest paid UK director were £111,844 (1993: £104,906).

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

	Number of directors	
	1994	1993
£0 – £5,000	3	3
£5,001 – £10,000	-	1
£15,001 – £20,000	1	1
£20,001 – £25,000	-	1
£60,001 – £65,000	-	1
£65,001 – £70,000	1	-
£70,001 – £75,000	1	-
£75,001 – £80,000	-	1
£100,001 – £105,000	-	1
£110,001 – £115,000	1	-

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	
	1994	1993
Operations	1,344	1,319
Administration	180	197
	<u>1,524</u>	<u>1,516</u>

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 1994 £000	Year ended 31 December 1993 £000
Wages and salaries	25,565	25,498
Social security costs	3,254	3,245
Other pension costs (see note 14)	463	346
	<u>29,282</u>	<u>29,089</u>

NOTES *continued*

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 December 1994 £000	Year ended 31 December 1993 £000
On bank loans, overdrafts and other loans wholly repayable within five years	535	530
On all other loans	23	15
Finance charges payable in respect of finance leases and hire purchase contracts	50	41
	<u>608</u>	<u>586</u>

6 TAXATION

	Year ended 31 December 1994 £000	Year ended 31 December 1993 £000
Current year:		
UK Corporation Tax at 33% on the profit for the year on ordinary activities	368	101
Overseas taxation	488	500
Deferred tax	(4)	96
Share of associated undertakings tax	18	45
ACT written off	-	35
	<u>870</u>	<u>777</u>
Prior year:		
UK Corporation Tax	(60)	(44)
Overseas tax	120	-
ACT written back	(31)	-
	<u>899</u>	<u>733</u>

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

NOTES *continued*

7 TANGIBLE FIXED ASSETS

	Land and buildings	Plant and machinery	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000
Group				
<i>Cost</i>				
At beginning of year	3,167	11,883	2,835	17,885
Additions	236	1,124	247	1,607
Disposals	-	(496)	(49)	(545)
Exchange adjustment	(92)	(107)	(106)	(305)
Reclassification	15	123	(138)	-
At end of year	3,326	12,527	2,789	18,642
<i>Depreciation and diminution in value</i>				
At beginning of year	538	6,570	1,714	8,822
Charge for year	94	1,281	378	1,753
On disposals	-	(468)	(35)	(503)
Exchange adjustment	(15)	(60)	(26)	(101)
Reclassification	4	98	(102)	-
At end of year	621	7,421	1,929	9,971
<i>Net book value</i>				
At 31 December 1994	2,705	5,106	860	8,671
At 31 December 1993	2,629	5,313	1,121	9,063

Included in the total net book value of plant and machinery is £667,000 (1993: £675,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £200,000 (1993: £112,000).

Included in the total net book value of fixtures, fittings, tools and equipment is £60,000 (1993: £228,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £117,000 (1993: £77,000).

The net book value of land and buildings comprises:

	Group	Group
	1994	1993
	£000	£000
Freehold	2,549	2,511
Long leasehold	11	16
Short leasehold	145	102
	2,705	2,629

Included in freehold land and buildings is £230,000 (1993: £237,000) in respect of land which has not been depreciated.

NOTES *continued*

8 FIXED ASSET INVESTMENTS

	Interests in associated undertakings £000	Other investments £000	Total £000
Group			
At 1 January 1994	233	152	385
Share of profits for the year	84	-	84
Exchange adjustment	(4)	(2)	(6)
Additions	35	13	48
Disposal	(5)	-	(5)
Loan written off	-	(63)	(63)
At 31 December 1994	343	100	443
<i>Provisions and other movements</i>			
At 1 January 1994	-	(30)	(30)
Movement in year	(13)	-	(13)
At 31 December 1994	(13)	(30)	(43)
<i>Net book value</i>			
At 31 December 1994	330	70	400
At 31 December 1993	233	122	355

Interests in associated undertakings comprise the group's 49% shareholding in Watson Gray (Saudi Arabia) Ltd, a company incorporated in Saudi Arabia. The group also holds a 49% investment in Inspectorate Malaysia Sdn Bhd, a joint venture project. Further investments were made in the year in Inspectorate Griffith (India) PVT Ltd (35%) and Inspectorate Australia PTY Ltd (50%). The business of all the associates is the same as the group's principal activity.

	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
Company			
<i>Cost</i>			
At 1 January 1994	4,889	6,623	11,512
Reallocation from loans and current debtors	720	(220)	500
At 31 December 1994	5,609	6,403	12,012

NOTES *continued*

8 FIXED ASSET INVESTMENTS *continued*

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 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	Netherlands Antilles
Inspectorate St Eustatius NV	Netherlands Antilles
Inspectorate Bahamas Ltd	Bahamas
Inspectorate de Venezuela SA	Venezuela
Inspectorate de Mexico SA de CV	Mexico
Inspectorate (Colombia) Ltda	Colombia
Inspectorate Griffith 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
Inspectorate Espanola SA	Spain
Watson Gray & Griffith De Inspeccoes E Controle LDA	Portugal
Inspectorate (Suisse) SA	Switzerland
Inspectorate M&L (Pty) Ltd (formerly McLachlan and Lazar (Pty) Ltd)	South Africa
Inspectorate Belgium Bvba	Belgium
Inspectorate Hellas EPE	Greece
Inspectorate (Far East) Ltd	Hong Kong
Inspectorate Commodity Services Sarl	France
Inspectorate International Inspection and Consulting GmbH	Germany
Inspectorate Griffith GmbH	Germany
Inspectorate (Singapore) Pte Limited	Singapore

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

NOTES *continued*

9 STOCKS

	Group	Group
	1994	1993
	£000	£000
Raw materials and consumables	290	28
Work in progress	363	199
	653	227

10 DEBTORS

	Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Amounts falling due within one year				
Trade debtors	11,155	10,352	-	-
Amounts owed by subsidiary undertakings	-	-	1,720	1,275
Amounts owed by undertakings in which the group has a participating interest	118	105	-	-
Other debtors	1,338	1,415	50	84
Prepayments and accrued income	708	1,293	-	-
	13,319	13,165	1,770	1,359
Amounts falling due after more than one year				
Other debtors	59	43	-	-
ACT recoverable	257	-	-	-
	13,635	13,208	1,770	1,359

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Bank loans and overdrafts (see note 12)	1,912	1,645	2	-
Obligations under finance leases and hire purchase contracts (see note 12)	231	151	-	-
Amounts due to subsidiary undertakings	-	-	16	488
Payments received on account	79	383	-	-
Trade creditors	3,908	3,859	-	-
Other creditors including taxation and social security:				
Corporation tax and ACT	745	761	-	74
Social security and other taxes	981	698	-	-
Other creditors	2,073	1,877	234	234
Accruals and deferred income	2,870	2,190	81	83
Dividend payable	1,025	1,217	1,025	1,217
	13,824	12,781	1,358	2,096

NOTES *continued*

12 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1994	1993	1994	1993
	£000	£000	£000	£000
Bank loans	2,554	3,839	-	-
Obligations under finance leases and hire purchase contracts	372	256	-	-
Other creditors	185	57	-	-
Due from subsidiary undertakings	-	-	874	-
	3,111	4,152	874	-

The loans are all secured on certain assets of the group and, except for £35,000 (1993: £161,000), are all repayable by instalments within five years. 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	Group
	1994	1993
	£000	£000
Within one year	284	155
In the second to fifth years	393	332
More than five years	8	-
	685	487
Less future finance charges	(82)	(80)
	603	407

13 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000	Other provisions £000	Total £000
Group			
At 1 January 1994	-	390	390
Utilised in the year	-	(177)	(177)
Credit for the year in the profit and loss account	4	-	4
ACT recoverable	39	-	39
Other movements	(70)	-	(70)
At 31 December 1994	(27)	213	186

The other provisions relate to the anticipated cost of reorganising certain of the group's operations and to the estimated cost of settling outstanding litigation claims.

NOTES *continued*

13 PROVISIONS FOR LIABILITIES AND CHARGES *continued*

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

Group	1994		1993	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Difference between accumulated depreciation and amortisation and capital allowances	562	145	93	-
On provisions	(107)	-	(166)	-
Other timing differences	(482)	(10)	112	-
ACT recoverable	-	-	(39)	-
Deferred tax (asset)/liability	(27)	135	-	-

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 £232,000 (1993: £165,000).

The group operates a defined benefit pension scheme for certain South African employees. The cost for the year was £76,000 (1993: £40,000). The most recent actuary's report as at 1 September 1992 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 £155,000 (1993: £115,000).

15 CALLED UP SHARE CAPITAL

	1994 £000	1993 £000
<i>Authorised, allotted, called up and fully paid</i>		
"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
	<u>11,250</u>	<u>11,250</u>

"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 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 are payable.

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 1994	(3,855)	782	(3,073)
Retained loss for year	-	(205)	(205)
Exchange adjustments	-	(121)	(121)
Transfers between reserves	1,058	(1,058)	-
At 31 December 1994	(2,797)	(602)	(3,399)
			Company profit and loss account £000
At 1 January 1994			446
Loss for year			(146)
At 31 December 1994			300

The cumulative amount of goodwill resulting from acquisitions in the current and earlier financial years which has been written off is £5,289,000. 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

	1994 Equity £000	1994 Non Equity £000	1993 Equity £000	1993 Non Equity £000
Profit for the financial year	820	-	1,429	-
Finance costs accruing	(1,025)	1,025	(1,217)	1,217
Non equity dividends proposed	-	(1,025)	-	(1,217)
Other recognised losses relating to the year	(121)	-	(286)	-
Goodwill adjustment	-	-	70	-
New share capital subscribed	-	-	280	3,448
Opening shareholders' funds	(2,073)	10,250	(2,349)	6,802
Closing shareholders' funds	(2,399)	10,250	(2,073)	10,250

NOTES *continued*

18 CONTINGENT LIABILITIES

The group has a contingent liability in respect of claims received from an overseas tax authority of £982,000 relating to the period prior to the acquisition of the business from Adia SA. These claims are being vigorously rebutted and it is expected that the matter will be settled at no cost to the company.

The company has guaranteed certain bank loans and overdrafts of its subsidiaries; the amount outstanding at the year end was £3,191,000 (1993: £4,472,000).

The group has entered into performance bonds and guarantees amounting to £1,884,000 (1993: £1,911,000).

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:

	1994		1993	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Group				
Operating leases which expire:				
Within one year	354	177	300	314
In the second to fifth years inclusive	201	605	481	791
Over five years	190	-	149	-
	<u>745</u>	<u>782</u>	<u>930</u>	<u>1,105</u>

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

	1994 £000	1993 £000
Operating profit	2,201	2,658
Depreciation charge	1,753	1,888
Profit on sale of tangible fixed assets	(4)	(6)
Income from associated undertakings net	(21)	(219)
Increase in stocks	(426)	(41)
Increase in debtors	(346)	(322)
Increase/(decrease) in creditors	931	(1,385)
Provisions utilised in the period	(177)	(1,616)
Net cash inflow from operating activities	<u>3,911</u>	<u>957</u>

NOTES *continued*

21 ANALYSIS OF MOVEMENTS IN LOANS AND FINANCE LEASES

	Bank loans & overdrafts	Other loans	Finance leases	Total
	£000	£000	£000	£000
Balance at 1 January 1993	5,714	3,727	248	9,689
Additions to loans	208	-	302	510
Additions to overdraft	189	-	-	189
Repayments	(1,023)	(3,727)	(111)	(4,861)
Reclassification from creditors	240	-	-	240
Reclassification	35	-	(35)	-
Exchange movements	121	-	3	124
Balance at 31 December 1993	5,484	-	407	5,891
Repayments	(1,410)	-	(216)	(1,626)
Additions to loans	245	-	412	657
Additions to overdraft	352	-	-	352
Exchange movements	(205)	-	-	(205)
Balance at 31 December 1994	4,466	-	603	5,069

22 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	Cash/ Bank	Bank overdrafts	Net
	£000	£000	£000
Balance at 1 January 1993	4,139	(207)	3,932
Net cash outflow before adjustments for foreign exchange rate changes	(1,509)	(189)	(1,698)
Effect of foreign exchange rate changes	17	-	17
Balance at 31 December 1993	2,647	(396)	2,251
Net cash outflow before adjustments for foreign exchange rate changes	(1,034)	(352)	(1,386)
Effect of foreign exchange rate changes	-	-	-
Balance at 31 December 1994	1,613	(748)	865