



ITS

Intertek Testing Services
Financial Review 1996

Introduction

Intertek Testing Services Limited (ITS) and its subsidiaries ("the Successor Company"), were established in connection with the acquisition of the testing and inspection business of Inchcape plc and its subsidiaries (the "Predecessor Company").

The Acquisition

The acquisition was accomplished pursuant to agreements entered into between ITS, certain ITS subsidiaries and Inchcape plc on October 8, 1996. The total purchase price for the acquisition after certain post closing adjustments was £378.8 million including fees. The acquisition was arranged by Charterhouse Development Capital Limited, a leading U.K. buyout and private equity fund manager. All members of the Executive Committee are ITS shareholders and share options have been issued to senior ITS management.

Continuity

The Executive Committee and the employees of the Predecessor Company continue their employment with the Successor Company. All clients and contracts with the Predecessor Company continue with the Successor Company and no business has been lost as a result of the acquisition.

Operations

Based on revenue estimates from management and independent third parties, management believes that ITS is the world's largest company engaged in the testing of products and commodities, agricultural products, minerals and water, with approximately 342 offices and 175 laboratories in over 60 countries. ITS is comprised of three major divisions, each focusing on a different area of laboratory and field-based testing, certification and inspection of products, samples and cargoes for commercial and governmental customers.

Quality Systems

Quality Systems is primarily engaged in the testing, inspection and certification of a wide range of manufactured goods, including electrical and building products, textiles and toys. Quality Systems has expanded its services to include the provision of quality assessment and certification of companies, primarily to the ISO 9000 series.

Caleb Brett

Caleb Brett is the joint world leader testing and inspecting crude oil, petroleum and petrochemical products, and it also tests and inspects agricultural produce, such as grain, cotton and sugar. Caleb Brett's certificates are internationally recognised as evidence of the quantity and quality of commodity shipments.

Other Divisions

ITS's three other divisions (collectively the "Other Divisions") consist of Minerals, which operates through its subsidiary Bondar Clegg which tests minerals exploration samples, Environmental Testing which tests water, soil and air for contaminants and Foreign Trade Supervision (FTS) which inspects and reviews the prices of imports into a number of countries to help check that import duties are properly paid and that imports comply with appropriate safety standards.

Format of Financial Information

The financial statements set out on pages 11 to 42 do not constitute the Company's statutory accounts for the period ended December 31, 1996. The first statutory accounts of the Company will be prepared for the period ended December 31, 1997 and will be filed in due course. Consequently, the auditors have yet to report on any statutory accounts of the Company.

The financial statements set out on pages 11 to 42 have been extracted from the Form 20-F filed with the Securities and Exchange Commission on May 29, 1997. A full copy of the Form 20-F is available at the company's registered office.

The results of operations by division set out on page 5 are presented on a combined basis for the period January 1, 1996 to October 7, 1996, during which the acquired business was owned and operated by Inchcape plc (the "Predecessor Period"); on a consolidated basis for the period from October 8, 1996 to December 31, 1996 (the "Successor Period"); and on a pro-forma basis for the year ended December 31, 1996. The pro-forma information for the year ended December 31, 1996 consists of amounts for the Predecessor Period, adjusted to give effect to the acquisition as if it had occurred as of January 1, 1996 and to reflect the accounting policies adopted by ITS, and amounts for the Successor Period. In addition, in preparing the pro-forma information the results for the Predecessor Period and Successor Period have been retranslated to reflect the cumulative average exchange rate for the year ended December 31, 1996.

The pro-forma financial information is provided for informational purposes and does not purport to represent what the Successor Company's results of operations would actually have been if the acquisition had in fact occurred on January 1, 1996 or to project the Successor Company's results of operations for any future period.

Commentary on the results of operations by divisions set out on page 5 is given in the Chairman's Statement.

A change in accounting policy has been made with regard to a specific debt due to ITS. At the Company's board meeting on April 27, 1997, a decision was made to change the Company's accounting policy in respect of business conducted by ITS with a major FTS client in Africa which accounted for approximately £7.6 million sales in 1996. The Foreign Trade Supervision division had at the end of December 1996 unpaid invoices relating to business with this customer that was outstanding dating back to November 1995. Because of continuing delays in receiving payment and the uncertainty as to the timing of future receipts of cash, the accounting policy has been changed to a method of providing against all outstanding receivables owed by this client and the release of appropriate amounts of the provision only when cash payment is received. In accordance with U.K. GAAP, this change in accounting policy has been retroactively applied and has the effect of

reducing operating income in the Predecessor Period by £2.8 million and reducing operating income in the Successor Period by £2.4 million.

Since the financial statements were prepared this debt has been paid up to February 1997.

In addition to adjustments related to the change in accounting policy, following the acquisition ITS restructured its loss making Environmental Testing division, which has resulted in operating exceptional costs charged against operating income in the Successor Period of £1.9 million and non-operating exceptional costs of £1.8 million in the Successor Period.

Results of Operations by Division

The following table sets forth revenues, operating income and revenue growth percentages for each of the major ITS divisions together with a summary of revenue by geographical area. The figures are stated in £' thousands and are translated into sterling using the cumulative average exchange rates applicable in each period. The figures are restated for the effect of the change in accounting policy described previously.

	Predecessor Company			Successor Company	
	Year ended Dec 31, 1994 Restated	Year ended Dec 31, 1995 Restated	Period Jan 1, to Oct 7, 1996	Period Oct 8, to Dec 31, 1996	Pro-forma Year ended Dec 31, 1996 (unaudited)
Revenues:					
Quality Systems Division	87,173	107,289	96,461	31,160	127,531
Caleb Brett Division	96,911	97,233	79,043	24,695	103,748
Other Divisions	72,109	77,213	68,057	24,605	92,470
Operating Revenue	256,193	281,735	243,561	80,460	323,749
Operating Income/(Loss)					
Quality Systems Division	12,331	15,642	15,090	5,121	20,337
Caleb Brett Division	6,537	7,140	6,032	3,255	9,393
Other Divisions	(1,037)	3,998	564	(2,475)	(1,817)
Operating Income	17,831	26,780	21,686	5,901	27,913
Revenue Growth Percentage:					
Quality Systems Division	11.9%	23.1%	n/a	n/a	18.9%
Caleb Brett Division	7.3%	0.3%	n/a	n/a	6.7%
Other Divisions	8.9%	7.1%	n/a	n/a	19.8%
Operating Revenue	9.3%	10.0%	n/a	n/a	14.9%
Revenue by Geographical Area of Origin:					
United States & Canada	134,479	134,614	114,042	36,657	150,567
Europe, Middle East, Africa	63,409	78,685	70,806	23,385	94,110
Asia and Far East	43,760	47,169	46,612	15,731	62,292
Latin America	14,545	21,267	12,101	4,687	16,780
Operating Revenue	256,193	281,735	243,561	80,460	323,749
Revenues from continuing operations					
Revenues from continuing operations	256,193	281,735	243,561	80,460	323,749
Operating costs	(238,576)	(255,196)	(222,249)	(74,628)	(296,221)
Equity income of associated companies	214	241	374	69	385
Operating income from continuing operations	17,831	26,780	21,686	5,901	27,913
Operating income before exceptionals	21,114	25,999	24,508	10,176	35,222
Exceptional items charged against operating income	(3,283)	781	(2,822)	(4,275)	(7,309)
	17,831	26,780	21,686	5,901	27,913

Chairman's Statement

Charterhouse Development Capital Limited has given great support to ITS since the business was acquired from Inchcape plc, and the independence of ITS has been very well received by both customers and employees.

Overview

ITS had another excellent year of growth in 1996. Revenues increased by 15% from £281.7 million in 1995 to £323.7 million in 1996 and operating income before exceptional items increased by 35% from £26.0 million in 1995 to £35.2 million in 1996. Operating income before exceptional items has been growing at a compound annual rate of 23.5% over the last four years. During the same period, revenues have been increasing at a compound annual rate of 14%.

Exceptional items relate to a change in accounting policy regarding a debt due from a major FTS client in Africa and to the cost of restructuring the Environmental division.

Operations

The operations of ITS are grouped into three main divisions – Quality Systems, Caleb Brett and Other. Although the divisions are managed separately, ITS has developed a strong corporate culture worldwide to maximise synergy within the Company and ensure that business leads are developed globally in all divisions.

Quality Systems

The operating income of Quality Systems for 1996 was £20.3 million which was 30% above 1995.

Quality Systems maintained its strategy of operating facilities close to its customers whilst having the safety marks and approvals to certify products for any country in the world. During 1996, new testing facilities were added in Turkey, India and Germany. Through a joint venture in Germany, ITS gained access to the GS mark which is the safety mark required by retailers and consumers on a wide range of electrical goods and products in Germany.

Caleb Brett

The operating income of Caleb Brett for 1996 was £9.4 million which was 32% above 1995.

Caleb Brett has two main growth strategies: it has continued its policy of expanding into countries where demand for its services is growing, such as Asia, Latin America and Russia, and it has benefited from the trend by oil companies and traders to outsource their testing requirements.

Other Divisions

Minerals Testing developed its facilities in some of the major gold producing countries in Africa, South America and Asia.

Environmental Testing made a loss in 1996 due to an extremely competitive market in the United States where there is over capacity. At the end of 1996 and the start of 1997, ITS closed two of its six laboratories and scaled back the operations in a third laboratory.

Foreign Trade Supervision (FTS) expanded its number of contracts during 1996. Whereas ITS is a world leader in all its other testing, inspection and certification activities, in this division it has a relatively small share of the world market. ITS's strategy is to increase its market share by actively bidding for new contracts.

The combined revenues of Minerals, Environmental and FTS are shown under the heading 'Other Divisions' within the financial statements. Operating income for other divisions decreased by £5.8 million, to £(1.8) million in 1996 from £4.0 million in 1995. The Minerals division experienced strong growth but this was more than offset by poor operating results experienced by Environmental.

The Board

When the acquisition of the testing and inspection businesses of Inchcape plc was completed in 1996, a new Board of Directors was established with myself as Chairman, Bill Spencer as Chief Financial Officer and Stuart Simpson and Merril Halpern as directors representing Charterhouse Development Capital and Charterhouse Group International Inc respectively. In addition to the Board there is an Executive Committee which I also chair and which includes Bill Spencer as the Chief Financial Officer as well as the Vice Presidents in charge of the operations of the different divisions.

People

The continuing success and growth of ITS depends mainly upon its employees. As I write, there are technicians testing electrical products, toys and textiles; there are inspectors on ships measuring cargoes and taking samples; there are technicians in laboratories preparing rock samples for analysis and testing them; there are laboratory technicians testing water, soil and air samples for toxic substances and there are inspectors and clerical workers ensuring that imports into several countries are being properly declared for import duty and safety standards. All these people need to work accurately and speedily, they need to be highly responsive to our customers and they continually need to feel committed to the success of ITS. The managers in ITS make sure that all these people have clear objectives, they know how they are performing and there is a spirit and culture in ITS that encourages us to continually improve our performance in order to gain the respect and appreciation of customers.

As a result of the new found independence of ITS, the company has been able to issue shares to all members of its executive committee and share options to some 210 managers in ITS. This means that a great number of people in the company are tied into the goals and development of the company.

Richard Nelson

Chairman

July 4, 1997

Intertek Testing Services

Executive Committee



Richard Nelson joined ITS in 1972 and has been the Chief Executive Officer of ITS since 1987. He assumed the role of Chairman in October 1996.



Eric Birch is Vice President of Quality Systems West. He joined ITS in 1992.



Gary Butts is Vice President of Minerals Testing (Bondar Clegg) and Environmental Testing. He joined ITS in 1993.



John Hodson joined ITS in 1986, and in 1995 he became Vice President of Petroleum & Commodities Testing and Inspection (Caleb Brett) Eastern Region (Middle East, Asia and South Africa).



Richard Kaminski joined ITS in 1979, and in 1993 he became Vice President of Petroleum & Commodities Testing and Inspection, (Caleb Brett) Americas.



Raymond Kong joined ITS in 1973, and became Vice President of Quality Systems East in 1991.



Jeff Liss joined ITS in 1988. He became Vice President of Foreign Trade Supervision in 1993.



Mark Loughead joined ITS in 1988, and in 1995 he became Vice President of Petroleum & Commodities Testing and Inspection, (Caleb Brett) Europe, North and Central Africa, and the former Soviet Union (FSU).



Brian Pitzer is Vice President of Human Resources. He joined ITS in March 1990 and developed the HR function in the America's Region.



Bill Spencer joined ITS in 1992, and after a period working as Regional Financial Officer within the Caleb Brett Division of ITS, became Chief Financial Officer for the Group in 1995.

Accountants' report to the directors of Intertek Testing Services Limited

We have examined the financial statements on pages 11 to 42 which have been prepared for the reasons and on the basis set out in note 2. The financial statements have been prepared under United Kingdom Generally Accepted Accounting Principles.

You are responsible for these financial statements, which are not the statutory accounts of Intertek Testing Services Limited ('the company') for the period ended December 31, 1996 and which have been extracted by you from the Form 20-F that was filed with the United States Securities and Exchange Commission ('SEC') in Washington DC by the company. On May 29, 1997 we reported on the Form 20-F as auditors of the company and we gave an unqualified opinion thereon under United Kingdom Auditing Standards.

In our opinion the financial statements set out on pages 11 to 42 have been correctly extracted from the Form 20-F filed with the SEC by the company.

KPMG

Chartered Accountants

London, England

July 4, 1997

Inchcape Testing Services Limited (*Predecessor Company*)

Combined Statements of Income

Intertek Testing Services Limited (*Successor Company*)

Consolidated Statement of Income

					(£ in thousands)			
					Predecessor Company			Successor Company
	Notes	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996			
Revenues from continuing operations	4	256,193	281,735	243,561	80,460			
Operating costs	5	(238,576)	(255,196)	(222,249)	(74,628)			
Equity income of associated companies		214	241	374	69			
Operating income from continuing operations	7	17,831	26,780	21,686	5,901			
Operating income before exceptional items		21,114	25,999	24,508	10,176			
Exceptional items charged against operating income	5, 6	(3,283)	781	(2,822)	(4,275)			
		17,831	26,780	21,686	5,901			
Non-operating exceptional items	6	–	(912)	–	(1,761)			
Income on ordinary activities before net interest and income from other Inchcape plc companies		17,831	25,868	21,686	4,140			
Net interest payable	8	(4,048)	(5,016)	(3,165)	(4,063)			
Income from other Inchcape plc companies		1,189	1,704	5,417	–			
Income before taxation		14,972	22,556	23,938	77			
Taxation	9	(5,066)	(6,822)	(11,883)	(411)			
Income/(loss) after taxation		9,906	15,734	12,055	(334)			
Minority interests		(694)	(1,482)	(447)	(1,104)			
Net income/(loss)	21, 22	9,212	14,252	11,608	(1,438)			

The accompanying notes on pages 16 to 42 are an integral part of these financial statements.

Inchcape Testing Services Limited (*Predecessor Company*)
Combined Balance Sheet

Intertek Testing Services Limited (*Successor Company*)
Consolidated Balance Sheet

		(£ in thousands)	
		Predecessor Company	Successor Company
		December 31, 1995 Restated	December 31, 1996
	Notes		
ASSETS			
Current assets			
Cash and cash equivalents	25	37,811	33,485
Trade receivables	13	54,496	57,167
Inventories	15	2,342	2,254
Deferred taxation asset	19	688	—
Other current assets	14	24,105	11,897
Total current assets		119,442	104,803
Property, plant and equipment, net	10	46,628	46,565
Investments in other Inchcape plc companies	12	7,484	—
Other investments	11	899	1,418
Total assets		174,453	152,786
LIABILITIES AND SHAREHOLDERS' EQUITY/(DEFICIT)			
Current liabilities			
Borrowings (including current portion of long term borrowings)	16	—	2,547
Accounts payable, accrued liabilities and deferred income	17	40,023	64,181
Income taxes payable		3,655	4,094
Total current liabilities		43,678	70,822
Long term borrowings	16	91,512	266,328
Deferred taxation liability	19	—	896
Provisions for liabilities and charges	18	3,816	10,621
Minority interests		2,557	3,000
Commitments and contingencies	28, 29		
Shareholders' equity/(deficit)			
Ordinary shares	20	34,372	318
Redeemable preference shares	20	—	81,815
Shares to be issued	20	—	2,793
Premium in excess of par value	20	—	2,857
Other capital	21	899	—
Goodwill write off reserve	23	(53,761)	(284,742)
Retained earnings/(deficit)	22	51,380	(1,922)
Total shareholders' equity/(deficit)	24	32,890	(198,881)
Total liabilities and shareholders' equity/(deficit)		174,453	152,786

The accompanying notes on pages 16 to 42 are an integral part of these financial statements.

Inchcape Testing Services Limited (*Predecessor Company*)

Combined Statements of Cash Flows

Intertek Testing Services Limited (*Successor Company*)

Consolidated Statement of Cash Flows

		(£ in thousands)			
	Notes	Predecessor Company		Successor Company	
		Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
RECONCILIATION OF OPERATING CASH FLOWS:					
Operating income		17,831	26,780	21,686	5,901
Equity income of associates		(214)	(241)	(374)	(69)
Depreciation of fixed assets		10,021	10,882	8,753	2,680
Loss on sale of fixed assets		96	10	347	1,345
(Increase)/decrease in inventories		(326)	(215)	(651)	120
Increase in receivables and prepayments		(11,503)	(6,487)	(6,148)	(2,746)
(Decrease)/increase in creditors		(111)	5,490	3,018	2,329
Increase/(decrease) in provisions		366	(116)	1,701	1,733
Net cash inflow from operating activities		16,160	36,103	28,332	11,293
CASH FLOW STATEMENT:					
Net cash inflow from operating activities		16,160	36,103	28,332	11,293
Returns on investments and servicing of finance:					
Interest paid		(4,048)	(5,016)	(3,419)	(1,196)
Dividends paid		-	-	(28,329)	-
Dividends paid to minorities		(601)	(672)	(661)	(145)
Dividends received from other Inchcape plc companies		1,189	1,704	5,417	-
Dividends received from associates		33	10	-	41
Net cash outflow from investments and servicing of finance		(3,427)	(3,974)	(26,992)	(1,300)
Taxation:					
Tax paid		(4,747)	(5,002)	(8,177)	(3,292)
Investing activities:					
Purchase of property, plant and equipment		(11,414)	(12,483)	(12,439)	(5,663)
Purchase of subsidiaries and associates	26	(11,840)	(881)	(834)	(336,737)
Acquisition provision payments		(1,507)	(214)	-	-
Sale of property, plant and equipment		904	341	162	58
Sale of subsidiaries		581	100	7,546	-
Net cash outflow from investing activities		(23,276)	(13,137)	(5,565)	(342,342)
Net cash (outflow)/inflow before financing		(15,290)	13,990	(12,402)	(335,641)
Financing:					
Ordinary shares issued and to be issued		-	-	-	5,968
Issue of redeemable preference shares		-	-	-	81,815
Issue of long term debt net of fees paid		-	-	-	283,210
Increase in/(repayment of) net funding from other Inchcape plc companies		29,888	(1,959)	3,230	-
(Repayment)/receipt of other loans		(1,790)	(5,392)	307	(762)
Cash subscribed by minorities		206	293	-	-
Net cash inflow/(outflow) from financing		28,304	(7,058)	3,537	370,231
Increase/(decrease) in cash and cash equivalents	25	13,014	6,932	(8,865)	34,590

The accompanying notes on pages 16 to 42 are an integral part of these financial statements.

Inchcape Testing Services Limited (*Predecessor Company*)

Combined Statements of changes in Shareholders' Equity

Intertek Testing Services Limited (*Successor Company*)

Consolidated Statement of changes in Shareholders' Equity/(Deficit)

	(£ in thousands)							
	Ordinary shares	Redeemable preference shares	Shares to be issued	Premium in excess of par value	Other capital	Goodwill write off (deficit) Restated	Retained earnings/(deficit) Restated	Total Restated
Predecessor Company								
Balance at January 1, 1994	34,372	—	—	—	—	(45,283)	29,912	19,001
Prior year adjustment	—	—	—	—	—	—	(454)	(454)
Net income	—	—	—	—	—	—	9,212	9,212
Movement in other capital	—	—	—	—	552	—	—	552
Goodwill written off on acquisitions	—	—	—	—	—	(10,833)	—	(10,833)
Profit on sale of Inchcape Testing Holdings (France) S.A.	—	—	—	—	—	—	872	872
Exchange adjustments	—	—	—	—	—	4,331	(4,536)	(205)
Balance at December 31, 1994	34,372	—	—	—	552	(51,785)	35,006	18,145
Net income	—	—	—	—	514	—	13,738	14,252
Movement in other capital	—	—	—	—	(227)	—	—	(227)
Goodwill written off on acquisitions	—	—	—	—	—	(186)	—	(186)
Exchange adjustments	—	—	—	—	60	(1,790)	2,636	906
Balance at December 31, 1995	34,372	—	—	—	899	(53,761)	51,380	32,890
Net income	—	—	—	—	371	—	11,237	11,608
Dividends	—	—	—	—	—	—	(28,329)	(28,329)
Capitalisation of indebtedness to other Inchcape plc companies	—	—	—	—	—	—	41,542	41,542
Exchange adjustments	—	—	—	—	(91)	(528)	176	(443)
Balance at October 7, 1996	34,372	—	—	—	1,179	(54,289)	76,006	57,268
Successor Company								
Balance at October 8, 1996	—	—	—	—	—	—	—	—
Issue of shares	318	81,815	—	2,857	—	—	—	84,990
Issue of warrants	—	—	2,793	—	—	—	—	2,793
Net loss	—	—	—	—	—	—	(1,438)	(1,438)
Goodwill written off on acquisitions	—	—	—	—	—	(289,319)	—	(289,319)
Exchange adjustments	—	—	—	—	—	4,577	(484)	4,093
Balance at December 31, 1996	318	81,815	2,793	2,857	—	(284,742)	(1,922)	(198,881)

The accompanying notes on pages 16 to 42 are an integral part of these financial statements.

Inchcape Testing Services Limited (*Predecessor Company*)

Combined Statements of Total Recognised Gains and Losses

Intertek Testing Services Limited (*Successor Company*)

Consolidated Statement of Total Recognised Gains and Losses

		(£ in thousands)			
		Predecessor Company			Successor Company
	Notes	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Net income/(loss)		11,182	13,783	11,608	(1,438)
Dividends		-	-	(28,329)	-
Exchange translation effect on foreign currency		(256)	912	(443)	4,093
Total recognised gains and losses as originally stated	24	10,926	14,695	(17,164)	2,655
Prior year adjustment	3	(2,373)	463	-	-
Total recognised gains and losses restated		8,553	15,158	(17,164)	2,655

There is no difference between income before taxation, and net income for the financial year, as stated in the combined, and consolidated, statements of income and their historical cost equivalents.

The accompanying notes on pages 16 to 42 are an integral part of these financial statements.

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

1. Acquisition of Inchcape Testing Services

Intertek Testing Services Limited (incorporated on July 19, 1996) and its wholly owned subsidiaries, Testing Holdings Sweden AB, 3260763 Canada Limited, Testing Holdings USA Inc, Torton Limited, Testing Holdings France EURL, Kite Overseas Holdings BV, Testing Holdings Germany GmbH and Intertek Testing Services UK Limited (collectively the "Company", the "Successor Company" or "ITS"), were established for the purpose of acquiring from Inchcape plc the whole of its Inchcape Testing Services division (collectively "Inchcape Testing Services" or "Predecessor Company"). The acquisition ("the Acquisition") was effected on October 8, 1996 when the Company and its wholly owned subsidiaries signed a share purchase agreement and an option agreement with Inchcape plc to acquire Inchcape Testing Services through the separate acquisition of its regional holding companies and the direct acquisition of certain operating companies.

Financial details of the Acquisition are set out in Note 26 to these financial statements.

As a result of the Acquisition, the capital structure of and the basis of accounting for the Company differ from those of Inchcape Testing Services prior to the Acquisition. Financial data of the Company in respect of the period from October 8, 1996 to December 31, 1996 (the "Successor Period") reflect the Acquisition under the acquisition method of accounting. Financial data in respect of Inchcape Testing Services prior to the Acquisition (the "Predecessor Period") generally will not be comparable with that of the Company with respect to the interest expense, amortisation of debt issuance costs incurred in connection with the Acquisition and income from other Inchcape plc companies. The net other effects on the Statement of Income of purchase accounting in the Successor Period are not significant.

2. Basis of preparation

(a) Successor and Predecessor Companies

The accompanying consolidated financial statements of the Company and its subsidiaries and the combined financial statements of the Predecessor Company and its subsidiaries have been prepared in conformity with accounting principles generally accepted in the United Kingdom ("U.K. GAAP") and are presented under the historical cost convention.

The accompanying financial statements do not represent the U.K. statutory financial statements of the Company or the Predecessor Company, as certain reclassifications and changes in presentation and disclosure have been made to conform more closely with accounting presentation and disclosure requirements applicable in the United States.

(b) Predecessor Company

All undertakings over which the Predecessor Company exercised control or a dominant influence, being the right to direct the operating and financial policies, are combined in the accompanying combined financial statements. However the following companies have not been combined.

S.S. Acquisition Corporation
Atkins Kroll Inc.
Microl Corporation

The above companies are stated at cost to the Predecessor Company in the combined balance sheet. The combined statements of income include dividends receivable from these companies which are recognised when declared.

This treatment represents a departure from the requirement of FRS 2 to combine all entities that are legally owned by the Predecessor Company. The Directors consider that, for the following reasons, compliance with this requirement would fail to present fairly the financial positions, results of operations and cash flows of the Predecessor Company for each of the relevant periods covered in this report.

Inchcape Testing Services Limited (*Predecessor Company*)

Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)

Notes to the Consolidated Financial Statements

2. Basis of preparation (continued)

- the above companies, while legally owned by a subsidiary of the Predecessor Company, did not form part of the testing operations of Inchcape plc that were acquired by the Successor Company in October 1996. The above companies were engaged in dissimilar businesses: shipping and brokerage and motor distribution and retail;
- the above companies were historically managed and financed as if they were autonomous from the Predecessor Company. The Predecessor Company had no involvement in and did not control the operating and financial policies of these companies;
- the above companies are now operated and financed autonomously from the Predecessor and Successor Companies;
- the above companies had no costs or facilities in common with the Predecessor Company; and
- the above companies had no financial commitments, guarantees or contingent liabilities related to the Predecessor Company.

It is not possible for the Directors to quantify the effects of this departure from the requirements of FRS 2 because there are no publicly filed financial statements for the above companies and management has no access to the financial records of the above companies.

The following companies which, although not legally owned by the Predecessor Company formed part of the Testing operations of Inchcape plc, are combined in the financial statements during the periods noted:

Company	Period
Inchcape Testing Holdings (France) S.A.	December 23, 1994 to October 7, 1996
Inchcape Testing Services (France) S.A.R.L.	December 23, 1994 to October 7, 1996
Caleb Brett (Peru) S.A.	January 1, 1995 to October 7, 1996
Inchcape Testing Services Colombia S.A.	January 1, 1995 to October 7, 1996
Gibbs y cia S.A.C.	January 1, 1995 to October 7, 1996
Gibbs y cia Ltda	January 1, 1995 to October 7, 1996

Prior to December 23, 1994 Inchcape Testing Holdings (France) S.A. and Inchcape Testing Services (France) S.A.R.L. were legally owned by the Predecessor Company. Caleb Brett (Peru) S.A., Inchcape Testing Services Colombia S.A., Gibbs y cia S.A.C. and Gibbs y cia Ltda, while forming part of the Testing operations of Inchcape plc, did not trade in 1993 and Gibbs y cia S.A.C. and Gibbs y cia Ltda. did not carry out testing business in 1994. While Caleb Brett (Peru) S.A. and Inchcape Testing Services Colombia S.A. commenced trading in 1994 their operations were minimal and their results were combined from January 1, 1995.

This treatment represents a departure from the requirement of FRS 2 to combine only those entities that are legally owned by ITS. The Directors assert that, for the following reasons, compliance with this requirement would fail to present fairly the financial positions, results of operations and cash flows of the Predecessor Company for each of the relevant periods covered by this report.

- these companies formed part of the testing operations of Inchcape plc that were acquired by the Successor Company in October 1996; and
- these companies have been historically managed and financed as if they were part of the Predecessor Company. The Predecessor Company exercised a dominant influence over these companies such that the operating and financial policies of these companies were controlled directly by the Predecessor Company.

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

2. Basis of preparation (continued)

The effects of combining total operating revenues, operating income and shareholders' equity of companies which, while not legally owned by the Predecessor Company, formed part of the Testing operations of Inchcape plc, were:

	(£ in thousands)		
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996
Total operating revenues	–	7,760	6,852
Operating income	–	616	511
Shareholders' equity at the end of the period	522	899	1,179

The share capital and reserves of these companies have been separately shown as "Other capital" within total shareholders' equity in the combined financial statements of the Predecessor Company.

3. Accounting policies

The significant accounting policies adopted by both the Successor and Predecessor Companies are as follows:

Basis of consolidation and combination

The consolidated financial statements of the Successor Company include the accounts of the Successor Company and its subsidiaries.

The combined financial statements of the Predecessor Company include the accounts of the Predecessor Company and its subsidiaries plus the combination of other operations as discussed in Note 2.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiaries acquired or sold are included in the consolidated statement of income of the Successor Company and the combined statements of income of the Predecessor Company from, or up to, the date control passes.

The consolidated and combined statements of income of the Successor and Predecessor Companies include their respective shares of income from associated undertakings. The consolidated and combined balance sheets of the Successor and Predecessor Companies include interests in associates at their respective shares of the net tangible assets.

Use of estimates

Preparation of financial statements in conformity with U.K. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for an accounting period. Such estimates and assumptions could change in the future as more information becomes known or circumstances alter, such that a subsequent determination of the results may differ from the amounts reported and disclosed in the financial statements.

Foreign currencies

The results of operations and cash flows of overseas subsidiaries and associated undertakings are translated into sterling at the average of the month end rates of exchange for the period, except when results are adjusted for the impact of hyper-inflation by using an alternative functional currency. Assets and liabilities in foreign currencies are translated into sterling at closing rates of exchange except where rates are fixed under contractual arrangements.

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

3. Accounting policies (continued)

The difference between net income/(loss) translated at average and at closing rates of exchange is included in the statement of total recognised gains and losses as a movement in shareholders' equity. Exchange differences arising from the retranslation to closing rates of exchange of opening shareholders' equity, long-term foreign currency borrowings used to finance foreign currency investments, and foreign currency borrowings that provide a hedge against shareholders' equity are also reflected as movements in shareholders' equity. All other exchange differences are dealt with in operations.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less depreciation, which is provided, except for freehold land, on a straight line basis over the estimated useful lives of the assets to their residual value mainly at the following annual rates:

Freehold buildings and long leasehold land and buildings	2%
Short leasehold land and buildings	term of lease
Plant, machinery and equipment	10% – 33.3%

Permanent diminutions in value of individual properties below cost are charged to operations; however deficits which the Directors consider to be temporary in nature, are recognised in the revaluation reserve and may be offset against other surpluses.

Leases

Assets held under capital leases are treated as if they had been purchased at the present value of the minimum lease payments. This cost is included in property, plant and equipment, and depreciation is provided over the shorter of the lease term or the estimated useful life. The corresponding obligations under these leases are included within borrowings. The finance charge element of rentals payable is charged to operations to produce a constant rate of interest. Operating lease rentals are charged to operations on a straight line basis over the periods of the leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred in the normal course of business in bringing inventories and work in progress to their present location and condition.

Revenues

Revenues represent the total amount receivable for services provided and goods sold, excluding sales-related taxes and intra-group transactions. Revenue is recognised when the relevant service is completed or goods delivered.

Taxation

Deferred taxation is provided using the liability method at current taxation rates on timing differences to the extent that the directors consider that it is probable that a liability or asset will crystallise.

Pension benefits

Liabilities under defined contribution pension schemes are charged to operations when incurred. ITS has a number of defined benefit pension schemes for which contributions are based on triennial actuarial valuations. Pension charges in operations have been calculated at a substantially level percentage of current and expected future pensionable payroll, with variations from regular cost spread over the expected remaining service lives of employees. Other post-retirement benefits are accounted for on a similar basis to defined benefit pension schemes.

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

3. Accounting policies (continued)

Goodwill

Goodwill represents the difference between the fair values of the cost of acquisition and the attributable identifiable net tangible assets at the date of acquisition, and is eliminated against shareholders' equity. The profit or loss on the disposal of a previously acquired business includes the attributable amount of purchased goodwill relating to that business.

Change in accounting policy

ITS provides foreign trade supervision services to a major client in Africa. During the period January 1, 1996 to October 7, 1996 a net payment of £2,401 was received in respect of fees earned prior to November 30, 1995, after deducting agent's commission. However, no payment has been received in respect of fees earned subsequent to November 30, 1995, amounting to a further £8,392 by December 31, 1996 after deducting agent's commission.

The Company has received no information to suggest that this client does not intend to meet its obligations in respect of these fees in the near term. However, because of the delays in payment and the uncertainty as to the timing of the future receipt of cash relating to these services, at a meeting of the board of directors held on April 27, 1997, a decision was taken to change the Company's accounting policy in connection with this business to a method of providing against all outstanding receivables. The impact of adopting the new accounting policy has been to reduce the income before taxation by £2,822 and £2,378 in the period from January 1, 1996 to October 7, 1996 and in the period from October 8, 1996 to December 31, 1996 respectively and to reduce the taxation charge in those periods by £1,106 and £951 respectively. A prior year adjustment of £3,183 (£1,910 net of taxation effect) has been made to recognise full provision against the net debtor at December 31, 1995. Comparative figures for the year ended December 31, 1995 have been adjusted to recognise an increase in income before taxation of £781 and an increase in the taxation charge of £312. Comparative figures for the year ended December 31, 1994 have been adjusted to recognise a reduction in income before taxation of £3,283 and a reduction in the taxation charge of £1,313.

4. Revenues

	(£ in thousands)			
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
(a) By geographical area of origin				
Europe: United Kingdom	23,741	27,415	29,289	10,482
Rest	29,339	38,863	29,984	11,561
	53,080	66,278	59,273	22,043
USA and Canada	134,479	134,614	114,042	36,657
Latin America	14,545	21,267	12,101	4,687
Asia and Far East	43,760	47,169	46,612	15,731
Middle East, Africa and rest of world	10,329	12,407	11,533	1,342
	256,193	281,735	243,561	80,460

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

4. Revenues (continued)

(b) By geographical area of destination

Europe: United Kingdom	16,606	18,430	17,564	6,267
Rest	27,013	36,136	29,953	17,792
	43,619	54,566	47,517	24,059
USA and Canada	131,261	126,468	112,146	36,559
Latin America	17,814	29,881	24,720	8,118
Asia and Far East	43,816	47,169	34,498	6,596
Middle East, Africa and rest of world	19,683	23,651	24,680	5,128
	256,193	281,735	243,561	80,460

5. Operating costs and gross profits

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Cost of sales	206,469	224,152	194,727	61,279
Net operating expenses	32,107	31,044	27,522	13,349
Total operating costs	238,576	255,196	222,249	74,628
Gross profit	49,724	57,583	48,834	19,181

Net operating expenses comprise administrative costs in respect of operations continuing throughout each period and exceptional items charged against operating income as follows:

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Administrative costs	28,824	31,825	24,700	9,074
Exceptional items (Note 6)	3,283	(781)	2,822	4,275
	32,107	31,044	27,522	13,349

Administrative costs comprise expenses incurred at the head office and divisional regional offices. All other expenses incurred at other trading locations are included in cost of goods sold.

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

6. Exceptional items

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Exceptional charges to operating income:				
Foreign Trade Supervision	3,283	(781)	2,822	2,378
Environmental Testing – restructuring	–	–	–	1,897
	<u>3,283</u>	<u>(781)</u>	<u>2,822</u>	<u>4,275</u>
Non-operating exceptional charges:				
Environmental Testing – provision for loss on disposal of fixed assets	–	–	–	1,761
Closure of Houston laboratory	–	912	–	–
	<u>3,283</u>	<u>131</u>	<u>2,822</u>	<u>6,036</u>

The exceptional charges to operating income in respect of Foreign Trade Supervision relate to the African debtor discussed in detail in Note 3.

The exceptional charges to operating and non-operating income in respect of Environmental Testing relate to the restructuring and loss on disposals of fixed assets which have been implemented by the Company following the Acquisition in order to streamline its operations, strengthen its competitive position and to stem its losses. The related tax impact in respect of the operating exceptional charge is a tax credit of £759. There is no related tax impact in respect of the non-operating exceptional charges in respect of Environmental Testing.

The exceptional charges for the closure of the Houston laboratory relate to provisions created for property, redundancy and other costs in connection with the closure. The related tax impact is a tax credit of £365.

7. Operating income

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
a) By Geographical area of origin				
Europe: United Kingdom	2,004	1,939	(451)	1,825
Rest	1,807	3,667	3,409	1,572
	<u>3,811</u>	<u>5,606</u>	<u>2,958</u>	<u>3,397</u>
USA and Canada	9,261	10,574	4,310	401
Latin America	1,301	833	2,438	(69)
Asia and Far East	7,010	9,351	10,358	3,039
Middle East, Africa and rest of world	(1,265)	3,218	3,078	80
Central costs	(2,287)	(2,802)	(1,456)	(947)
	<u>17,831</u>	<u>26,780</u>	<u>21,686</u>	<u>5,901</u>

Notes to the Combined Financial Statements**Notes to the Consolidated Financial Statements****7. Operating income (continued)**

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
b) Operating income is stated after charging:				
Depreciation	10,021	10,882	8,753	2,680
Directors' emoluments:				
Borne by Predecessor/Successor Company	463	551	334	85
Bonus borne by Inchcape plc	—	—	—	731
Staff costs	109,990	123,420	104,322	33,764
Leasing and hire charges	9,360	9,668	8,962	2,562
Auditors' remuneration:				
As auditors	317	307	173	57
Other services	221	155	187	236

In addition to the amounts included above for Auditors' remuneration for other services £1,847 has been charged to goodwill and £684 has been charged against the carrying value of borrowings in the three months ended December 31, 1996.

8. Net interest payable

	(£ in thousands)			
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Interest payable and other charges:				
On loans from other Inchcape plc companies	5,037	6,854	5,007	—
Senior Subordinated Notes	—	—	—	1,868
Parent Subordinated PIK Debentures	—	—	—	885
Senior Term Loan A	—	—	—	1,001
Senior Term Loan B	—	—	—	476
Other bank loans and overdrafts and other borrowings	598	437	138	75
Amortisation of debt issuance costs	—	—	—	255
Interest payable	5,635	7,291	5,145	4,560
Interest receivable:				
On loans to other Inchcape plc companies	(591)	(577)	(660)	—
On bank balances	(996)	(1,698)	(1,320)	(497)
	4,048	5,016	3,165	4,063

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

9. Taxation

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
U.K. Corporation tax on income on ordinary activities	2,686	1,683	4,611	—
Double taxation relief	(1,585)	(904)	(4,440)	—
	1,101	779	171	—
Overseas taxes	3,667	5,640	13,356	(1,163)
Transfer to/(from) deferred taxation	118	172	(2,179)	1,480
Adjustments to prior year liabilities	122	133	433	—
	5,008	6,724	11,781	317
Associated companies	58	98	102	94
	5,066	6,822	11,883	411

The following table sets out the reconciliation of the notional tax charge at U.K. standard rate to the actual tax charge.

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Income before taxes	14,972	22,556	23,938	77
Notional tax charge at U.K. standard rate 33%	4,941	7,443	7,900	25
Differences in overseas tax rates	(604)	(781)	(192)	(171)
UK tax on dividends, less FTC's	869	462	1,126	—
Permanent differences — disallowables	394	551	415	1,205
Permanent differences — untaxed income	(447)	(201)	(151)	(11)
Unprovided deferred tax	(220)	(435)	1,238	(619)
Other	133	(217)	1,547	(18)
	5,066	6,822	11,883	411

Notes to the Combined Financial Statements**Notes to the Consolidated Financial Statements****10. Property, plant and equipment**

	(£ in thousands)		
	Land and Buildings	Plant and Machinery	Total
Cost			
At January 1, 1994	8,777	71,627	80,404
Exchange adjustments	(64)	(2,256)	(2,320)
Assets of Subsidiaries acquired	5,068	2,530	7,598
Additions	29	11,120	11,149
Disposals and transfers	(916)	(3,623)	(4,539)
At December 31, 1994	12,894	79,398	92,292
Exchange adjustments	1,043	2,165	3,208
Additions	–	12,506	12,506
Disposals and transfers	(660)	(3,728)	(4,388)
At December 31, 1995	13,277	90,341	103,618
Exchange adjustments	(262)	(1,205)	(1,467)
Additions	–	12,439	12,439
Disposals and transfers	775	(3,983)	(3,208)
At October 7, 1996	13,790	97,592	111,382
Fair Value at October 8, 1996	11,652	37,566	49,218
Exchange adjustments	(1,252)	(2,980)	(4,232)
Additions	196	5,467	5,663
Disposals	–	(1,404)	(1,404)
At December 31, 1996	10,596	38,649	49,245
Accumulated depreciation			
At January 1, 1994	(1,963)	(39,455)	(41,418)
Exchange adjustments	(18)	916	898
Provided for the year	(399)	(9,622)	(10,021)
Disposals	15	2,903	2,918
At December 31, 1994	(2,365)	(45,258)	(47,623)
Exchange adjustments	(108)	(1,850)	(1,958)
Provided for the year	(368)	(10,514)	(10,882)
Disposals and transfers	96	3,377	3,473
At December 31, 1995	(2,745)	(54,245)	(56,990)
Exchange adjustments	156	421	577
Provided for the period	(536)	(8,217)	(8,753)
Disposals and transfers	(228)	2,922	2,694
At October 7, 1996	(3,353)	(59,119)	(62,472)

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

10. Property, plant and equipment (continued)

	(£ in thousands)		
	Land and Buildings	Plant and Machinery	Total
At October 8, 1996	-	-	-
Provided for the period	(144)	(2,536)	(2,680)
At December 31, 1996	(144)	(2,536)	(2,680)
Net book values			
At December 31, 1994	10,529	34,140	44,669
At December 31, 1995	10,532	36,096	46,628
At October 7, 1996	10,437	38,473	48,910
Fair value at October 8, 1996	11,652	37,566	49,218
At December 31, 1996	10,452	36,113	46,565

The book value of plant and equipment includes £109 (1995 - £518) in respect of assets held under capital leases.

11. Other investments

Other investments consist primarily of investments in associated companies and comprise the following:

	(£ in thousands)			Total
	Cost of Associated Companies	Share of Post-Acquisition Profits	Goodwill	
At January 1, 1994	157	172	(13)	316
Additions	1,540	-	(1,049)	491
Other movements	(36)	(20)	15	(41)
At December 31, 1994	1,661	152	(1,047)	766
Retained income and other movements	(14)	140	7	133
At December 31, 1995	1,647	292	(1,040)	899
Retained income, and other movements	695	282	(216)	761
At October 7, 1996	2,342	574	(1,256)	1,660
At October 8, 1996	1,660	-	-	1,660
Retained income and other movements	(176)	(66)	-	(242)
At December 31, 1996	1,484	(66)	-	1,418

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

12. Investments in other Inchcape plc companies

	(£ in thousands)		
	Year ended December 31, 1994	Year ended December 31, 1995	Period from Jan 1, to October 7, 1996
At beginning of period	7,838	7,436	7,484
Exchange adjustments	(402)	48	—
Disposals	—	—	(7,484)
At end of period	7,436	7,484	—

The investments comprised unlisted shares in SS Acquisition Corporation, Atkins Kroll Inc. and Microl Corporation. These companies did not form part of the Testing operations of Inchcape plc and were disposed of during the period January 1, 1996 to October 7, 1996 for no gain or loss. There is no related tax effect.

13. Trade receivables

Trade receivables are shown net of the following allowances for doubtful receivables:

	(£ in thousands)			
	Balance at beginning of period Restated	Cost and expenses Restated	Deductions Restated	Balance at end of period Restated
Year ended December 31, 1994				
Allowance for doubtful receivables	4,217	4,504	(2,239)	6,482
Year ended December 31, 1995				
Allowance for doubtful receivables	6,482	1,542	(2,606)	5,418
Period from January 1, to October 7, 1996				
Allowance for doubtful receivables	5,418	2,999	(382)	8,035
Period from October 8, to December 31, 1996				
Allowance for doubtful receivables	8,035	2,268	(127)	10,176

14. Other current assets

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Balances with other Inchcape plc companies	13,245	—
Assets held for resale	616	619
Other receivables	4,087	6,188
Prepayments and accrued income	6,157	5,090
	24,105	11,897

Within other receivables is £2,423 due in more than one year (1995 – £832)

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

15. Inventories

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Raw materials and consumables	1,067	1,239
Work in progress	801	541
Finished goods	474	474
	2,342	2,254

16. Borrowings

Due in less than one year:

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Senior Term Loan A	–	2,250
Bank overdrafts, loans, capital leases and other borrowings	–	297
	–	2,547

Due in more than one year:

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Borrowings from other Inchcape plc companies	89,950	–
Senior Subordinated Loans	–	111,457
Senior Term Loan A	–	75,421
Senior Term Loan B	–	35,865
Parent Subordinated PIK Debentures	–	43,427
Bank loans and overdrafts	1,030	27
Obligations under capital leases	446	53
Other borrowings	86	78
	91,512	266,328

Notes to the Combined Financial Statements**Notes to the Consolidated Financial Statements****16. Borrowings (continued)****Maturity of borrowings**

	(£ in thousands)					Total borrowings
	Senior Subordinated Notes	Senior Term Loan A	Senior Term Loan B	Parent Subordinated PIK Debentures	Bank loans, capital leases and other borrowings	
Due in less than one year	–	2,360	–	–	297	2,657
Due in 2-5 years	–	38,347	–	–	47	38,394
Due in over 5 years	118,713	40,695	37,704	45,251	111	242,474
	118,713	81,402	37,704	45,251	455	283,525
Debt issuance costs	(7,256)	(3,731)	(1,839)	(1,824)	–	(14,650)
	111,457	77,671	35,865	43,427	455	268,875

Description of borrowings*(a) Senior Subordinated Notes*

In November 1996 the Company issued US \$203 million principal amount of Senior Subordinated Notes (the "Notes"). The cash consideration received at the date of issue was £123,547,000. The Notes mature at par on November 1, 2006. Interest on the Notes will accrue at the rate of 10% per annum and will be payable semi annually in cash on each May 1 and November 1 commencing on May 1, 1997. The Notes are redeemable, in whole, or in part, at the Company's option at any time on or after November 1, 2001 at the redemption price of 105.125% of the principal amount, during the year commencing November 1, 2001, 103.417% of the principal amount, during the year commencing November 1, 2002, 101.708% of the principal amount during the year commencing November 1, 2003 and, thereafter, at 100% of the principal amount plus accrued and unpaid interest. The Notes were issued to finance the Acquisition.

The indenture under which the Notes were issued contains various covenants which, amongst other things, restrict the ability of the Company to incur additional indebtedness, pay dividends, create certain liens, enter into certain transactions with shareholders, or sell certain assets. The Company was in compliance with the covenants at December 31, 1996.

(b) Senior Term Loans

In November 1996, the Company entered into a credit agreement (the "Credit Agreement") comprising a £125.0 million Term Loan Facility (the "Term Loan Facility"), split into a £85.0 million multicurrency Term A Facility (the "Term A Facility") and a £40.0 million multicurrency Term B Facility (the "Term B Facility"), and a \$48.8 million multicurrency Revolving Credit Facility. The Term A Facility amortises over seven years with the final repayment on December 15, 2003 and the Term B Facility is repayable in two equal instalments in June and December, 2004. The commitments under the Revolving Credit Facility terminate on December 15, 2003.

The proceeds of the Term Loan Facility were used to make the Acquisition and to pay related acquisition costs. The Revolving Credit Facility is available for general corporate purposes, to pay certain post-closing payments, if any, and fees in connection with the Acquisition and, in part, to make payments of principal and interest in respect of the Term Loan Facility.

Borrowings under the Credit Agreement are secured on substantially all the tangible and intangible assets of the Company.

Term A Loans and advances under the Revolving Credit Facility initially bear interest at a rate equal to LIBOR (as adjusted) plus 2.00%. The margin over LIBOR may be reduced, initially to 1.75%, following satisfaction of certain financial performance tests.

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

16. Borrowings (continued)

Term B Loans bear interest at a rate equal to LIBOR (as adjusted) plus 2.75%. Overdue amounts on either the Term A Loans, the Term B Loans or Revolving Credit Facility will bear interest at the applicable interest rate plus 1.00% per annum.

The Credit Agreement contains numerous operating and financial covenants, including, without limitation, requirements to maintain minimum ratios of adjusted earnings to senior interest expense, adjusted earnings to total interest expense, minimum ratios of cash flow to debt service, maximum ratios of total indebtedness to net worth and minimum net worth levels. In addition, the Credit Agreement includes covenants relating to limitations on liens, limitations on sales and other disposals of assets, limitations on indebtedness and other liabilities, limitations on hedging and other treasury transactions, limitations on capital expenditure, limitations on investments, mergers, acquisitions, loans and advances, subordination of amounts payable under the Notes, limitations on dividends and other distributions, limitations on issuances of shares or redemption of shares, limitations on debt payments, including prepayment or redemption of the Notes, limitations on amendments to documents including the acquisition document and the Notes, limitations on payment of fees, maintenance of intellectual property, environmental matters, maintenance of insurance and maintenance of the nature of the business. The Company was in compliance with the covenants at December 31, 1996.

(c) *Parent Subordinated PIK Debentures*

In November 1996 the Company issued £50.0 million of units (the "Units") consisting of 12.0% Subordinated Debentures due November 1, 2007 (the "Parent Subordinated PIK Debentures") and warrants to purchase 14.2% of the fully diluted share capital of the Company ("Warrants") pursuant to a securities purchase agreement (the "Securities Purchase Agreement"). The Warrants will be exercisable only upon sale in connection with the acquisition by a person (other than a person who has funds managed by Charterhouse or any other member of Charterhouse's wholly-owned group) of more than 50% of the Ordinary Shares of the Parent (calculated excluding the ordinary Shares underlying the Warrant) or the unconditional granting of permission for any of the ordinary Shares of the Parent to be dealt on any recognised investment exchange.

Interest on the Parent Subordinated PIK Debentures will be accrued quarterly at a rate of 12.0% per annum, subject, upon, and during the continuation of certain events of default, to an increase to the lesser of (i) 24.0% per annum or (ii) the highest rate of interest then allowed under applicable law. In lieu of cash, interest on the Parent Subordinated PIK Debentures may, at the option of the Company, be paid by issuing additional Parent Subordinated PIK Debentures on any interest payment date (i) on or prior to February 1, 2002, (ii) after February 1, 2002, to the extent the Company's pro-forma total fixed charge coverage ratio would be less than 1.10 to 1.00 or (iii) if (a) at the time of any such payment, there exists a payment default in respect of certain senior indebtedness (including the Notes and indebtedness incurred under the Credit Agreement noted above) or (b) after giving effect to any such payment an event of default pursuant to which such indebtedness under the Indenture or Credit Agreement may be accelerated shall occur and be continuing and the Company is prevented by the holders under the Indenture or the creditors under the Credit Agreement from paying such cash interest.

The Parent Subordinated PIK Debentures may be redeemed at any time at the option of the Parent in whole or in part (*provided* that, at any such time, the Company redeems a minimum of US \$5.0 million in aggregate principal amount of the Parent Subordinated PIK Debentures) at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the redemption date.

The Parent Subordinated PIK Debentures contain change of control provisions similar to those applicable to the Notes requiring the Parent to offer to repurchase all of the Parent Subordinated PIK Debentures upon a change of control at a price of 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase.

The Parent Subordinated PIK Debentures impose certain limitations on the Company and its subsidiaries to (i) incur additional indebtedness, (ii) pay dividends or make certain other restricted payments, (iii) issue, sell, assign, pledge or otherwise encumber or dispose of any shares of capital stock or other equity securities of any of the Parent's subsidiaries,

Inchcape Testing Services Limited (*Predecessor Company*)

Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)

Notes to the Consolidated Financial Statements

16. Borrowings (continued)

(iv) merge or consolidate with any other person, (v) enter into certain transactions with affiliates and (vi) enter into agreements which restrict any dividend payments or distributions to the Company by its subsidiaries or to shareholders by the Company. The Parent Subordinated PIK Debentures also provide that the proceeds of any asset sale or issuance of equity shall be applied to the repayment of senior indebtedness, investment in the business of the Company or its subsidiaries or the repurchase of the Parent Subordinated PIK Debentures. The Company was in compliance with the limitations at December 31, 1996. The Parent Subordinated PIK Debentures are unsecured liabilities of the Company.

17. Accounts payable, accrued liabilities and deferred income

Due in less than one year:

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Trade accounts payable	10,252	13,257
Balances with other Inchcape plc companies	248	7,420
Other taxation and social security	2,833	3,123
Other creditors	550	9,666
Accruals and deferred income	26,140	30,715
	<u>40,023</u>	<u>64,181</u>

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

18. Provisions for liabilities and charges

	(£ in thousands)			Total
	Pension benefits	Fair Value	Other	
At January 1, 1994	116	1,306	1,942	3,364
Exchange adjustment	(1)	(77)	(117)	(195)
Subsidiaries acquired	–	1,715	–	1,715
Charged to operations	1,014	–	879	1,893
Other movements	–	–	403	403
Utilised during the year	(969)	(1,507)	(594)	(3,070)
At December 31, 1994	160	1,437	2,513	4,110
Exchange adjustment	8	5	23	36
Charged to operations	1,122	–	1,037	2,159
Utilised during the year	(1,200)	(214)	(1,075)	(2,489)
At December 31, 1995	90	1,228	2,498	3,816
Transfers from accruals and deferred income	–	–	1,026	1,026
Charged to operations	766	–	2,195	2,961
Utilised during the period	(823)	(99)	(418)	(1,340)
Released	–	–	(946)	(946)
At October 7, 1996	33	1,129	4,355	5,517
At October 8, 1996	701	2,703	5,484	8,888
Charged to operations	225	–	2,233	2,458
Utilised during the period	(229)	(70)	(426)	(725)
At December 31, 1996	697	2,633	7,291	10,621

Other provisions are mainly in respect of reorganisation costs and claims.

19. Deferred taxation

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Total potential deferred taxation:		
Accelerated capital allowances	1,844	1,891
Other timing differences	(1,694)	(810)
	150	1,081
Provision made	(688)	896

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

20. Share capital

(a) Authorised share capital –

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Ordinary shares of £1 each	35,000	–
Ordinary 'A' shares of 1p each	–	269
Ordinary 'B' shares of 1p each	–	49
Ordinary 'C' shares of 1p each	–	12
Ordinary 'D' shares of 10p each	–	55
Redeemable preference shares of £1 each	–	81,815
	35,000	82,200

(b) Issued share capital –

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Ordinary shares of £1 each	34,372	–
Ordinary 'A' shares of 1p each	–	269
Ordinary 'B' shares of 1p each	–	49
Ordinary 'C' shares of 1p each	–	–
Ordinary 'D' shares of 10p each	–	–
Redeemable preference shares of £1 each	–	81,815
	34,372	82,133

Ordinary Shares

The A Shares, B Shares, C Shares and D Shares rank *pari passu* in all respects except that: (i) the holders of A Shares and D Shares have a right on a winding-up to receive the subscription price of those shares in preferences to the holders of B Shares and C Shares, but rank *pari passu* with the holders of B Shares and C Shares on the distribution of any surplus assets available after repayment to the holders of B Shares and C Shares of the subscription price on those shares; (ii) the C Shares confer no right to receive notice of, attend or vote at general meetings of the Company; and (iii) D Shares confer on the holders the right to receive notice of and to attend, but not to vote at, general meetings of the Company.

Redeemable Preference Shares

The Redeemable Preference Shares rank senior to the Ordinary Shares of the Company. No dividends will be payable on the Redeemable Preference Shares. The Redeemable Preference Shares will be mandatorily redeemed on the thirteenth anniversary of issuance. The Company may, at its option, and upon the written request from holders of 30% or more of the Redeemable Preference Shares, redeem from any source of funds legally available therefor. Redeemable Preference Shares have no voting rights, except that they can vote on the winding-up of the Company, on a reduction in the Company's capital or modifying the rights and restrictions of such Redeemable Preference Shares.

Inchcape Testing Services Limited *(Predecessor Company)*
Notes to the Combined Financial Statements

Intertek Testing Services *(Successor Company)*
Notes to the Consolidated Financial Statements

20. Share capital (continued)

	(£ in thousands)	
	December 31, 1995	December 31, 1996
(c) Premium in excess of par value –		
Ordinary 'A' shares of 1p each	–	2,416
Ordinary 'B' shares of 1p each	–	441
	–	2,857

	(£ in thousands)	
	December 31, 1995	December 31, 1996
(d) Shares to be issued	–	2,793

During the period ended December 31, 1996 the Company issued warrants to subscribe for ordinary 'D' shares of 10p each. The shareholder warrants can only be exercised on November 1, 2007 unless certain events occur beforehand. The shareholder warrants, if exercised in full, would represent 14.2% of the fully diluted share capital of the company. In accordance with FRS 4, the net proceeds of issue of these warrants (£2,793) have been included within shareholders' funds as shares to be issued.

21. Other capital

	(£ in thousands)			
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
At beginning of period	–	552	899	–
Arising on sale of Inchcape Testing Holdings (France) S.A552	–	–	–	–
Shareholders' funds of newly consolidated Testing companies	–	(227)	–	–
Net income	–	514	371	–
Exchange adjustments	–	60	(91)	–
At end of period	552	899	1,179	–

Other capital represented the aggregate shareholders' equity of companies which, while not legally owned by the Predecessor Company formed part of the testing and inspection operations of Inchcape plc. This comprised:

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Aggregate share capital	1,663	–
Aggregate accumulated deficit	(764)	–
	899	–

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

22. Retained earnings/(deficit)

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
At beginning of period	29,912	35,006	51,380	-
Prior year adjustment	(454)	-	-	-
Exchange adjustments	(4,536)	2,636	176	(484)
Net income/(loss)	9,212	13,738	11,237	(1,438)
Dividends	-	-	(28,329)	-
Capitalisation of indebtedness to other Inchcape plc companies	-	-	41,542	-
Profit on sale of Inchcape Testing Holdings (France) S.A.	872	-	-	-
At end of period	35,006	51,380	76,006	(1,922)

Shareholders' equity includes, before cumulative goodwill written off, £29,000 (1995 – £51,000; 1994 – £48,000) in respect of subsidiaries and associated companies operating overseas which, if distributed as dividends, would involve liabilities to additional United Kingdom taxation as reduced by appropriate double taxation relief and, in certain territories, additional overseas taxation. The funds representing the reserves of subsidiaries operating overseas have been in the main permanently employed in the business and were considered unlikely to be distributed as dividends. Accordingly, no deferred tax has been provided thereon.

23. Goodwill write off reserve

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
At beginning of period	(45,283)	(51,785)	(53,761)	-
Exchange adjustments	4,331	(1,790)	(528)	4,577
Goodwill written off on acquisitions	(10,833)	(186)	-	(289,319)
At end of period	(51,785)	(53,761)	(54,289)	(284,742)

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

24. Reconciliation of movement in shareholders' equity/(deficit)

	(£ in thousands)			
	Year ended December 31, 1994 Restated	Year ended December 31, 1995 Restated	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Total recognised gains and losses for the period (as originally stated)	10,926	14,695	(17,164)	2,655
Issue of Successor Company ordinary share capital	-	-	-	3,175
Issue of Successor Company ordinary share warrants	-	-	-	2,793
Issue of Successor Company redeemable preference shares -	-	-	81,815	-
Goodwill movements	(10,833)	(186)	-	(289,319)
Capitalisation of indebtedness to other Inchcape plc companies	-	-	41,542	-
Investment by other Inchcape plc companies in testing companies not legally owned by Predecessor Company	1,424	-	-	-
Shareholders' equity of newly consolidated testing companies	-	(227)	-	-
	1,517	14,282	24,378	(198,881)
Prior year adjustment	(2,373)	463	-	-
Opening shareholders' equity	19,001	18,145	32,890	-
Closing shareholders' equity/(deficit)	18,145	32,890	57,268	(198,881)

	(£ in thousands)	
	December 31, 1995 Restated	December 31, 1996
Analysis of closing shareholders' equity/(deficit)		
Equity interests	32,890	(280,696)
Non-equity interests	-	81,815
	32,890	(198,881)

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

25. Changes in cash and cash equivalents

	(£ in thousands)			
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
At beginning of period	17,623	30,105	37,373	-
Net cash inflow/(outflow)	13,014	6,932	(8,865)	34,590
Exchange adjustments	(532)	336	(499)	(1,231)
At end of period	30,105	37,373	28,009	33,359
Comprising:				
Cash in hand and at bank	31,525	37,811	28,137	33,485
Bank overdrafts	(1,420)	(438)	(128)	(126)
	30,105	37,373	28,009	33,359

26. Acquisitions

(a) Successor Company

With effect October 8, 1996 the Company acquired Inchcape Testing Services. The acquisition method of accounting has been adopted. The analysis of net assets acquired and the provisional fair value to the Company is set out below. The resulting goodwill of £289,319 has been eliminated against shareholders' equity.

	(£ in thousands)				Total
	Book value	Revaluation	Accounting policy	Other fair value	
Cash and cash equivalents	28,009	-	-	-	28,009
Receivables	60,094	-	-	-	60,094
Inventories	2,866	-	(461)	-	2,405
Other current assets	10,092	-	(457)	1,900	11,535
Property, plant and equipment	48,910	308	-	-	49,218
Associate undertakings	1,660	-	-	-	1,660
Borrowings	(1,397)	-	-	-	(1,397)
Accounts payable	(45,125)	-	-	(389)	(45,514)
Income tax	(9,332)	-	-	-	(9,332)
Deferred tax	2,963	-	-	(2,379)	584
Provisions	(2,078)	-	-	(3,371)	(5,449)
Net balance with Inchcape plc	(39,394)	-	-	-	(39,394)
	57,268	308	(918)	(4,239)	52,419
Minority interests					(2,301)
Provisional fair value of net assets acquired:					50,118

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

26. Acquisitions (continued)

Provisional fair value of consideration:	
Initial cash consideration (including fees of £7,541)	386,786
Post closing purchase price adjustments	<u>(7,955)</u>
	378,831
Settlement of net indebtedness of Predecessor Company to Inchcape plc	<u>(39,394)</u>
	339,437
Contingent consideration payable / (receivable)	<u>—</u>
	339,437
Less provisional fair value of net assets acquired	<u>(50,118)</u>
Provisional goodwill arising on acquisition	<u>289,319</u>

The fair value adjustments are provisional and may be subject to revision. Any adjustments made will be reflected in the goodwill calculation.

The revaluation of £308 comprises an upward adjustment of £1,215 in respect of freehold properties and a downward adjustment of £907 in respect of plant and equipment.

The accounting policy adjustments of £918 comprise the write down of property deposits to landlords to align with the Company's policy of not recognising such assets on the balance sheet and the write down of work in progress to align with the Company's policy on the recognition of work in progress.

The other fair value adjustments principally comprise:

- £1,900 prepayment in respect of surpluses in funded pension schemes assessed on an actuarial basis as at the effective date of acquisition;
- £668 provision in respect of deficits in funded pension schemes assessed on an actuarial basis as at the effective date of acquisition;
- £2,057 discounted provision in respect of the excess of contracted property rental charges over market rentals at the effective date assessed by an independent valuer; and
- £646 provision for the costs of changes to the Company's signage to remove references to Inchcape plc as contractually required by the share purchase agreement.
- £2,379 reduction in deferred tax amounts in compliance with the requirements of Statement of Standard Accounting Practice 15 ("Accounting for deferred tax").

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

26. Acquisitions (continued)

(b) Predecessor Company

The Predecessor Company has made acquisitions in each of the years ended December 31, 1994 and 1995 and the period ended October 7, 1996. Acquisitions in 1995 and during the period ended October 7, 1996 were not material to revenues, operating income and the net assets, either individually or in aggregate. In 1994 it acquired the whole of the issued share capital of Semko AB, the remaining 60% of the issued share capital of Pisamex S.A. de C.V., which had previously been a 40% owned associate of ITS, a 50% interest in Korean Inspectors & Marine Surveyors Co, Ltd., becoming an associate undertaking of ITS, and a 25% minority interest in Inchcape Testing Services (South Africa) (Pty) Limited. The effect of these acquisitions is set out below:

	(£ in thousands)				Total
	Book value	Revaluation	Accounting policy	Other fair value	
Cash and cash equivalents	3,495	—	—	—	3,495
Receivables	2,483	—	—	(35)	2,448
Property, plant and equipment	6,169	1,429	—	—	7,598
Associated undertakings	486	—	—	—	486
Borrowings	(2,144)	—	—	—	(2,144)
Accounts payable and provisions	(5,686)	—	493	(1,645)	(6,838)
	4,803	1,429	493	(1,680)	5,045
Minority interests and transfers from associated companies:					(111)
Fair value of net assets acquired					4,934
Fair value of consideration:					
Subsidiaries					13,299
Associates and minority interests					2,235
					15,534
Less fair value of net assets acquired					(4,934)
					10,600
Adjustments in respect of prior years					233
Goodwill					10,833

Notes to the Combined Financial Statements

Notes to the Consolidated Financial Statements

26. Acquisitions (continued)

(c) Net cash outflow on purchase of subsidiaries and associates

	(£ in thousands)			
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Fair value of consideration	15,534	510	885	378,831
Net deferred consideration (payable)/paid	(199)	371	-	-
Cash and cash equivalents acquired	(3,495)	-	(51)	(28,009)
Contingent consideration recoverable received	-	-	-	(2,850)
Excess consideration recoverable received	-	-	-	(4,570)
Fees payable	-	-	-	(6,665)
Net cash outflow in respect of acquisition made during the period and prior period adjustments	11,840	881	834	336,737

Except for the consideration paid, the effects of acquisitions on cash flows for the year ended December 31, 1995, were not material. Acquisitions made in 1994 contributed £957 to the Company's cash flows, paid taxation of £171 and utilised £496 for investing activities (excluding acquisition provision payments). The results of operations for the period from October 8, 1996 to December 31, 1996 were generated entirely from the acquisition in the period.

27. Pension schemes

The pension costs charged represent contributions payable in respect of:

	(£ in thousands)			
	Year ended December 31, 1994	Year ended December 31, 1995	Period from January 1, 1996 to October 7, 1996	Period from October 8, 1996 to December 31, 1996
Defined benefit schemes	1,014	1,122	766	225
Defined contribution schemes	2,407	2,648	2,916	914
	3,421	3,770	3,682	1,139

A number of pension schemes are operated throughout the world. In many overseas locations employees are members of defined contribution schemes which are principally linked to local statutory arrangements. The following significant defined benefit schemes are operated:

United Kingdom scheme

The Predecessor Company operated a defined benefit scheme with the assets held under a separately administered trust. Following the Acquisition the scheme was transferred to the Company. Contributions to the scheme are assessed in accordance with the advice of a qualified independent actuary, using the projected unit credit method. The total cost to the group of the scheme for the period October 8, 1996 to December 31, 1996 was £115 (January 1, 1996 to October 7, 1996 – £345; 1995 – £517; 1994 – £400).

The latest actuarial valuation of the scheme was made as at January 1, 1996 using the assumptions for investment return of 9% per annum, average pensionable salary increase of 8% per annum and present and future pension increases of 2.5 – 3% per annum, in respect of pensions accrued before April 6, 1997 and 4.5% per annum thereafter.

Inchcape Testing Services Limited (*Predecessor Company*)
Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)
Notes to the Consolidated Financial Statements

27. Pension schemes (continued)

At the date of the latest actuarial valuation the market value of the scheme's assets was £12,540 and the actuarial value of the assets was sufficient to cover 130% of the benefits that had accrued to members. Contributions by participating companies were suspended with effect from April 1, 1996.

United States scheme

The assets of the frozen defined benefit scheme had a market value of £975 based on the latest actuarial valuation carried out during 1995. The actuarial value of the assets of the scheme covered 88% of the benefits that had accrued to members. Following the Acquisition the scheme was transferred to the Company.

Defined benefit schemes (other than the U.K. and U.S. schemes)

ITS operates a defined benefit scheme in Taiwan. The assets of the scheme had a market value of £541 based on the latest actuarial valuation carried out as at December 31, 1996. The actuarial value of the assets of the scheme covered 58% of the benefits that had accrued to members. Following the Acquisition the scheme was transferred to the Company.

Approximately 600 Hong Kong employees are members of the Inchcape Pacific Pension Scheme, a defined benefit scheme. Contributions to the scheme for October 8, 1996 to December 31, 1996 were £144 (period January 1, 1996 to October 7, 1996 – £432; 1995-£441; 1994-£485).

28. Contingent liabilities

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Performance bonds	2,718	824
Other guarantees	2,591	7,519
	5,309	8,343

The Company is a defendant in various lawsuits and has been named in a number of claims. The Company is defending these matters vigorously and investigations and discovery are in progress. The Company has been fully and partially indemnified by Inchcape plc, the previous owner of Inchcape Testing Services, in respect of specified litigation and claims outstanding at the date of the Acquisition.

The ultimate outcome and cost of litigation and claims cannot presently be determined. However, the directors do not consider that the ultimate outcome of these matters will have a material adverse impact on the Company's financial position or results of operations.

The Company has been fully indemnified by Inchcape plc in respect of any actual or contingent taxation liabilities of the Predecessor Company that may arise in respect of all previous accounting periods up to September 30, 1996.

Inchcape Testing Services Limited (*Predecessor Company*)

Notes to the Combined Financial Statements

Intertek Testing Services (*Successor Company*)

Notes to the Consolidated Financial Statements

29. Other commitments

ITS had annual commitments under non-cancellable operating leases as follows:

	(£ in thousands)	
	December 31, 1995	December 31, 1996
Payable in one year:		
Expiring within one year	2,266	4,291
Expiring within two to five years inclusive	6,208	7,020
Expiring in more than five years	1,629	1,782
	10,103	13,093
Being in respect of:		
Land and buildings	8,657	10,618
Other	1,446	2,475
	10,103	13,093

30. Dividends

Dividends of £28,329 were paid out of capital during the period January 1, 1996 to October 7, 1996. There is no related tax effect.

31. Related party transactions

Inchcape plc provided treasury, tax, and other services and corporate office space to the Predecessor Company for which it charged a management fee. The fee charged for the period from January 1, 1996 to October 7, 1996 was £743 (1995-£975; 1994-£981). Additionally, Inchcape plc arranged for third-party services, including insurance and external audit, on behalf of the Predecessor Company. These costs were paid directly by the Predecessor Company.

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